Public Utilities

Volume 57 No. 10 May 10, 1956

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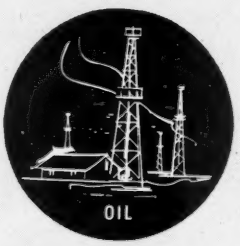

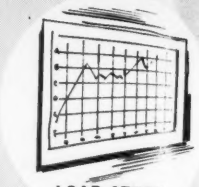
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Public Utilities FORTNIGHTLY

VOLUME 57 MAY 10, 1956 NUMBER 10

ARTICLES

FEATURE SECTIONS

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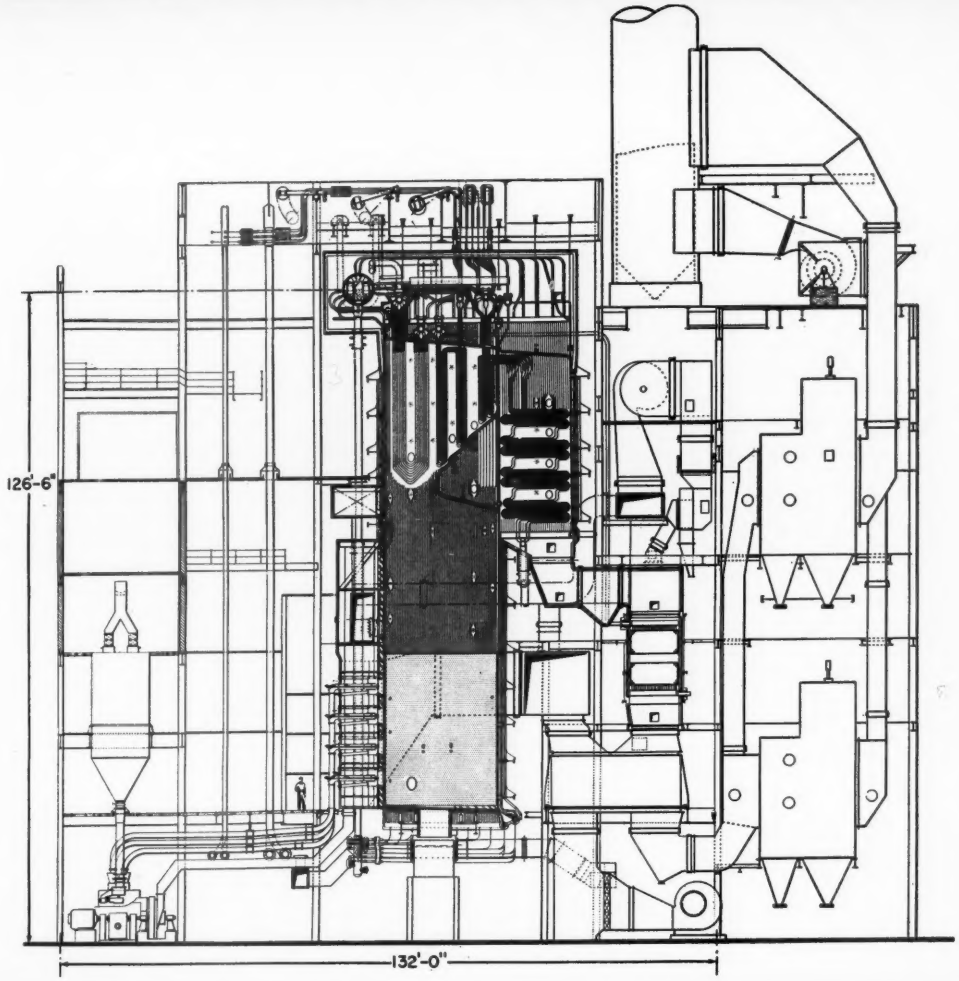

Supported by sound, practical engineering, Public Service Electric and Gas Company is engaged in a continuing, progressive policy of planning and over-all expansion to provide abundant, economical electricity to its large body of customers.

As part of this far-sighted program, Public Service Electric and Gas Company has installed a new, highly efficient 185,000 KW unit at its Burlington Generating Station. A B&W Radiant Boiler, generating over 1,225,000 pounds of steam per hour, contributes to the high level of performance of this new installation. The boiler is pulverized-coal-fired with provision for oil-firing, and is served by five B&W pulverizers. It is designed with divided furnace construction, gas recirculation, pressure firing and natural circulation. Unit design pressure is high—2700 psi, and the temperature is 1100 F at the superheater outlet with reheat to 1050 F.

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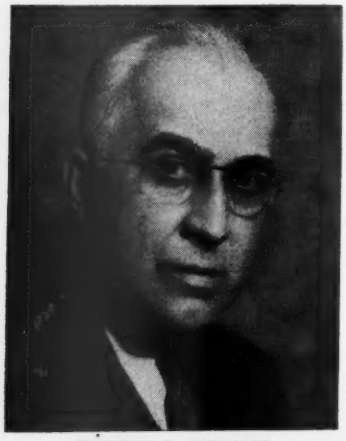
G-753

Pages with the Editors

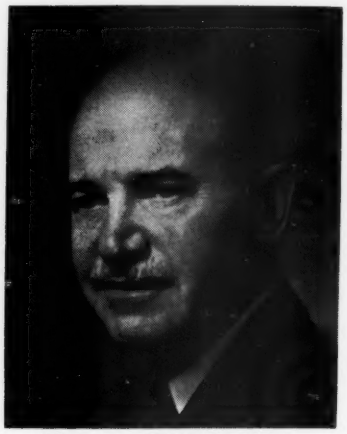
WE were quite intrigued by the suggestion inspired by the 2-part article, the first instalment of which opens in this issue, on the subject of public relations as affecting the regulatory climate of a public utility. And that is the suggestion that public relations is essentially a *maintenance* job. In plainer words, it means keeping a given company or system or institution "sold" to its customers or others on whose friendship and good will it depends.

AND just like any other form of maintenance, public relations is a never-ending job. It requires constant checking, testing, repairing, restoration, brightening, and polishing. It requires, also, a reasonable delegation of authority from management to someone placed in charge, to see that the job is done and done right. A failure or neglect of maintenance in the operation of a building or other physical structure would pretty soon become apparent in the outward appearance as deterioration showed up from lack of proper care.

BUT a failure or neglect in the maintenance of good public relations is an intangible thing. It might go unnoticed for a considerable period of time, only to flare up in awkward complications under pressure of any difficult managerial decision which might place an unusual demand on the reservoir of good will which a public utility company should have.



ERNEST R. ABRAMS



ROBB M. WINSBOROUGH

THE only answer, to go back to the analogy of physical maintenance, is constant and periodic review and analysis, plus the continuation of time-tested methods of insuring public good will. One of the most important of such methods is the creation of a widespread public understanding of how the company operates economically and subject to regulation in the public interest. It is a grave error to assume that the public does understand this. And even after an acceptable degree of understanding has once been created, it is also an error to assume that it will stay that way without constant periodic repetition of proper education methods. In other words, the once common assumption that economic facts somehow make themselves publicly known is a grave fallacy and can become a quicksand for the foundation of any public utility company's good-will structure.

THE author of this 2-part series gives us a good example of how the utility industry's high performance and steadily reducing rates can be clearly presented. Stable rates in the face of steadily increasing inflation did not gain the public recog-

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The new transistorized dynamic microphone, or the dual purpose dynamic "Speaker-Mike," is optionally available with Motorola's "TWIN-V" Radiophone—the world's finest FM 2-way mobile radio unit . . . incorporating many *exclusive* features, including universal 6/12 volt operation, Sensicon receiver, Permakay Filter, and Instantaneous Deviation Control.

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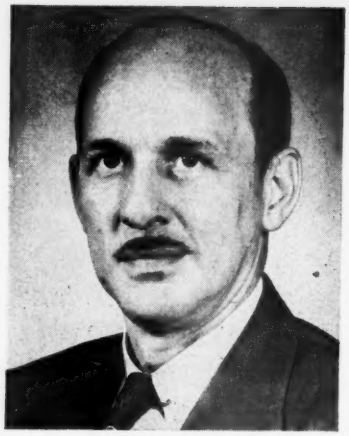
nition for the utilities which these facts deserved. Practical understanding of economics has become blurred by propaganda charges and countercharges, leaving the utility in the middle of political spats.

THE author of this article, ROBB M. WINSBOROUGH, is a well-known consultant on employee and public relations matters, advertising, and personnel for the Middle West Service Company of Chicago. A graduate of Rice Institute, Houston, Texas, he entered the field of utility public relations in 1929 after some experience in oil production and journalism. He started as director of public relations in that year with the Southwestern Gas & Electric Company. Since 1938 he has been consultant for Middle West Service Company. For three years, 1943-45, he was in the Army as chief of the field service branch of the information education division of the Army Service Forces, with the rank of Lieutenant Colonel.

* * * *

THE railroad industry may well stand at the threshold of its greatest opportunities in a half-century. The economic outlook, plus the growing tendency toward possible relief of rail transport from burdensome regulation and control, may well signal a new age of rail progress. The article beginning on page 655 comments optimistically on a recent report of the Presidential Advisory Committee on Transport Policy and Organization, which recommended a freer program of regulation and greater reliance upon competition among transport forms.

DR. HAROLD KOONTZ, author of this article on "Managerial Freedom and the Railroads," is professor of business policy and administration at the University of California in Los Angeles, and a well-known transportation economist. He was educated at Oberlin College (AB, '30), Northwestern (MBA, '31), and Yale (PhD, '35). He has had extensive teaching experience, serving with the faculties of Duke, Toledo, and Colgate universities before World War II. During the war period, he served as consultant to the old Office of Price Administration and chief of the traffic branch of the old War Pro-



HAROLD KOONTZ

duction Board. He has written three books and scores of articles in technical, professional, and business journals on the subject of business management, especially transportation. DR. KOONTZ's business experience is also quite extensive. He is now a member of the policy committee, and chairman, management development committee, Hughes Aircraft Company. He is also director or consultant to eight corporations.

* * * *

IN the article entitled "The Outlook for Natural Gas Earnings," beginning on page 668, there is an analysis of some available financial data on two-score natural gas companies and the general economic impact upon the gas industry in the wake of the presidential veto of the Harris-Fulbright Bill. Consideration is given to the dividend pay-out records of nearly two-dozen companies to common stockholders over the past thirty years. ERNEST R. ABRAMS, well-known New York financial writer and economist, sees no disturbance to the financial positions of the natural gas companies as a result of the gas bill defeat. Quite to the contrary, traditional growth and vigor of the industry seem assured, despite storms in the political-legislative area.

THE next number of this magazine will be out May 24th.

The Editors

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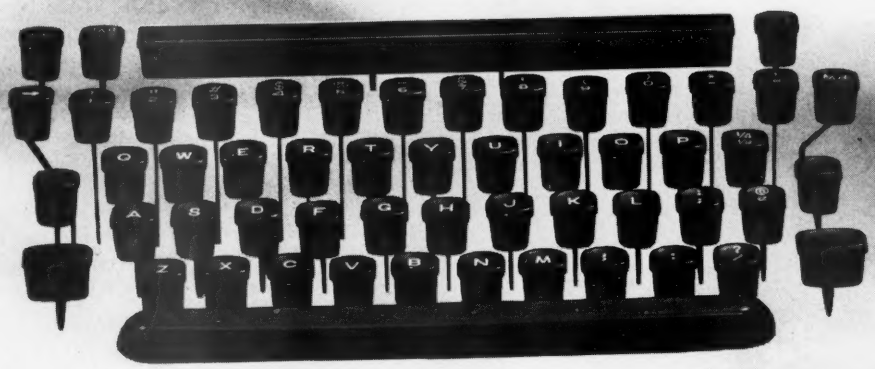

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(May 24, 1956, issue)

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RATE BASE AS A TEST OF FAIR RETURN PROVISIONS

A percentage figure applied to the number of dollars found to represent the rate base of a public utility produces the number of dollars to be allowed for return. Comparisons of such percentage figures, however, may be misleading if the method of rate base determination is overlooked. The net income to the public utility company must meet the standards established by courts and commissions involving such factors as attraction of capital, cost of money, risk, and comparable returns. The Supreme Court, in the Hope Case (51 PUR NS 193), recognized the relationship between earnings and rate base when it said that rates could not be made to depend upon "fair value" when the value of the going enterprise depends on earnings under whatever rates may be anticipated. The statutory standard was said to govern the result reached and not the method employed. William H. Howe, chief engineer of the Arizona Corporation Commission, in this article has reviewed the perennial and persistent regulatory problem of relating the rate base to the fair rate of return.

PUBLIC RELATIONS BUILD A BETTER REGULATORY CLIMATE. PART II.

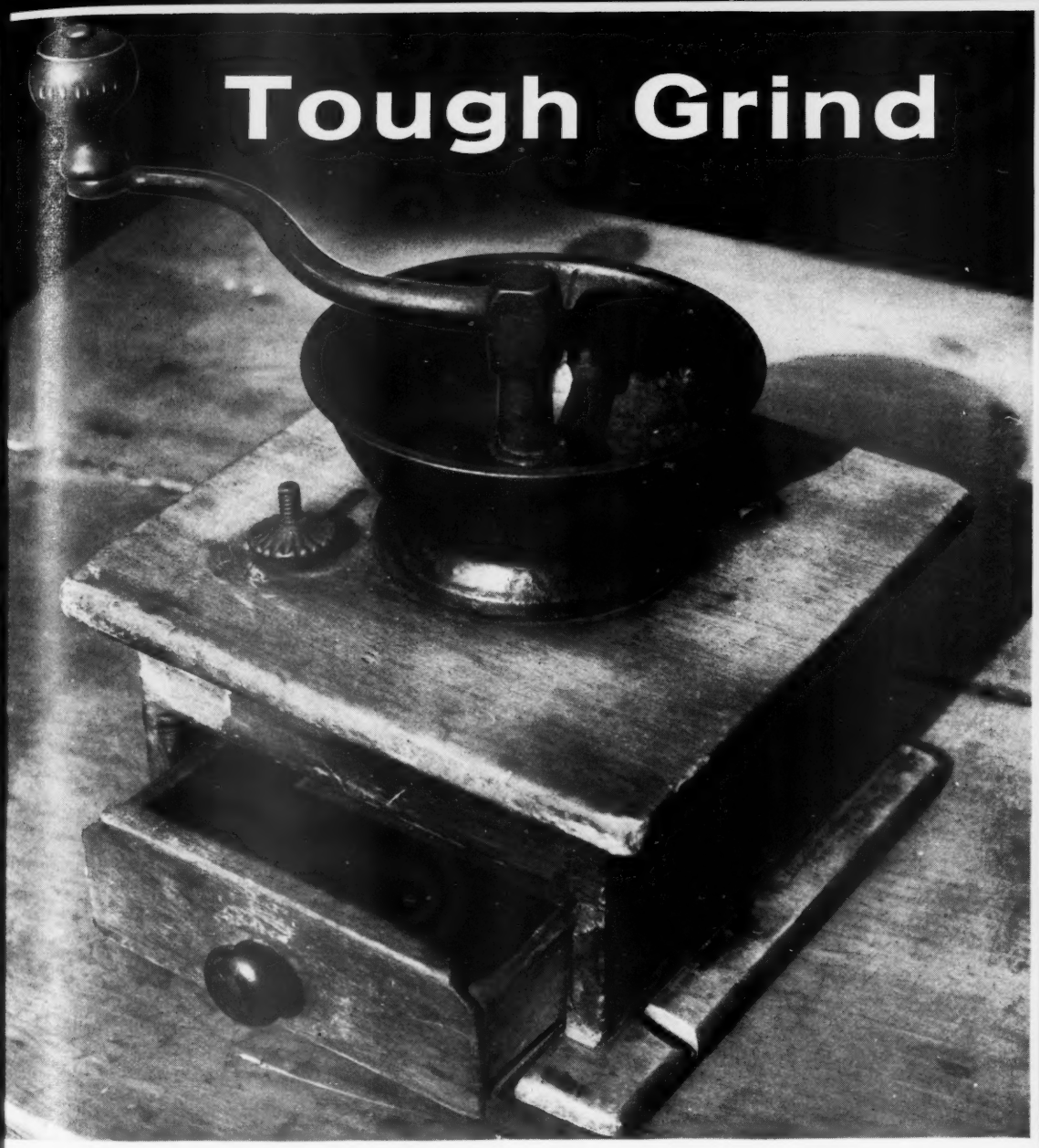
In the first instalment of his 2-part series Robb M. Winsborough, consultant of the Middle West Service Company, outlined the need for public utility management to keep a constant check on the reservoir of good will which the utility company should enjoy in the community or area where it serves. This check-up of what is more commonly known as "public relations" necessarily develops into a form of technique. In the second instalment, Mr. Winsborough analyzes the major influences which affect the condition of a public utility company's public relations. There is, for example, the impact of a company's conduct and practices, as well as the impact of developments beyond the control of the company itself. The importance of the employee attitude is given careful attention in this concluding part. The author proposes that utility management appraise the research findings and indulge in critical self-examination. He proposes specific methods for reviewing printed and other publicity materials which bear the company's name. There are other valuable hints and checks in the matter of obtaining and maintaining acceptable public relations.

WHAT IS THE "FAIR RATE OF RETURN"?

Back in 1953 in several natural gas company rate decisions the Federal Power Commission came pretty close, in the opinion of some observers, to finding that fair rate of return and cost of capital amounted to the same thing. There was, of course, a mathematical rationalization of the return allowed in those cases as applied to net investment rate base findings. But the next step could have been the abandonment of the rate case concept entirely. Since these earlier decisions the Federal Power Commission has definitely shelved any suggestion that fair rate of return is exclusively determined by cost of capital or any other single standard. In this article Charles W. Knapp, certified public accountant, has reviewed leading court decisions as well as recent authoritative publications on the subject of the rate of return allowance. He concludes that a rate of return should at least never be lower than is required to produce a fair amount to cover the capital costs of the business.

★

Also . . . ***Special financial news, digests, and interpretations of court and commission decisions, general news happenings, reviews, Washington gossip, and other features of interest to public utility regulators, companies, executives, financial experts, employees, investors, and others.***



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MARVIN CHANDLER
President, Northern Illinois Gas Company.

"Any employee who does his work thoroughly and conscientiously cannot help but improve our customer relations. We must have customers to remain in business. We must have satisfied customers if we are to grow and progress."

JOHN M. PEIRCE
Director of finance, State of California.

"American industry can well be proud of its achievements in peace and war. Government should be the means by which the American system of free enterprise can continue to maintain for the people of this nation the highest standard of living the world has yet seen. The goal should be to keep both democracy and the economy operating on the same beam."

STUART SYMINGTON
U. S. Senator from Missouri.

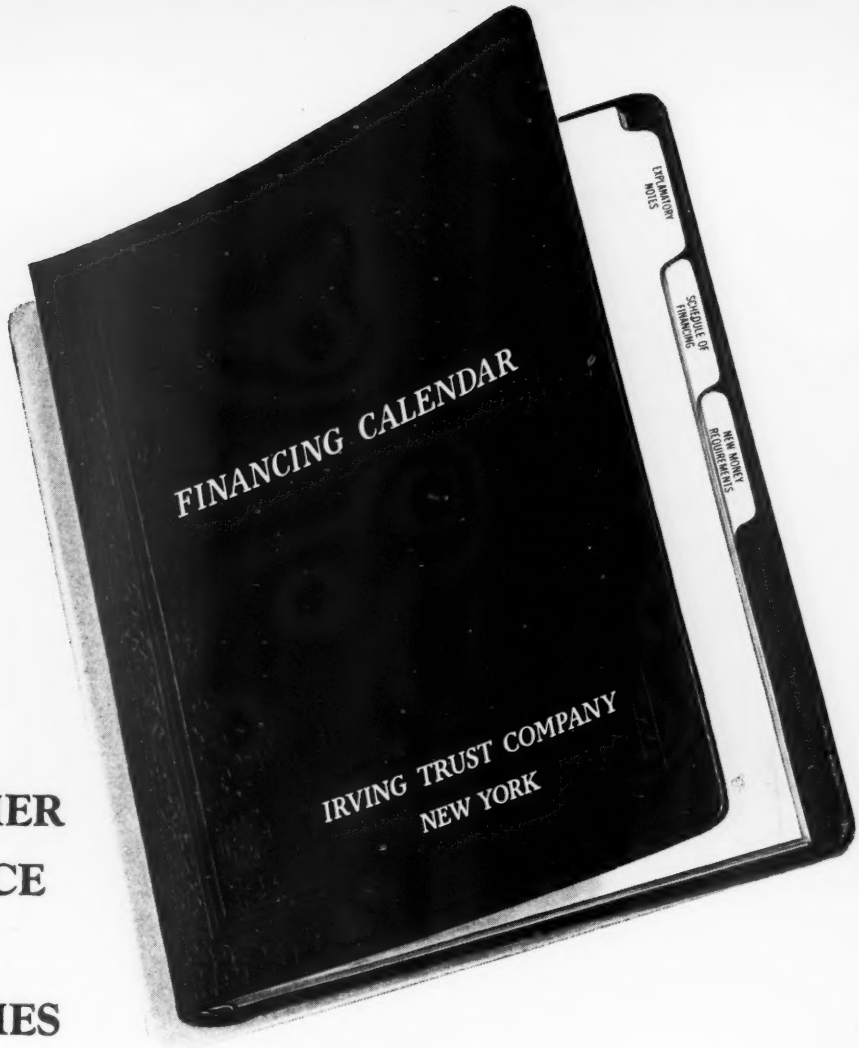
"I believe the Tennessee Valley Authority should remain intact—and that it should continue to play its vital rôle in the development of that great watershed. But by this I do not mean to imply necessarily that TVA should expand beyond its present boundaries; or that other great river basin developments should expand beyond theirs. Some of the strongest supporters of TVA have publicly acknowledged this position."

M. J. RATHBONE
President, Standard Oil Company of New Jersey.

"It seems pretty clear that the world needs, and will use, all the energy that it can get on a reasonably economic basis. The atom will probably take some time to work itself into the world's energy pattern; we expect, for example, that by 1975 its contribution to domestic energy needs may add up to about 2 per cent of the total. The proportion will undoubtedly be higher abroad, and there also the applications of atomic energy will chiefly be specialized ones."

GABRIEL HAUGE
Administrative assistant to President Eisenhower.

"It makes sense that the citizens of Memphis do what they now find they can do—finance construction of a new steam power plant of their own rather than have the TVA build a plant raised from federal taxpayers all across the land. It makes sense, too, for an investor-owned tax-paying public utility company, on the basis of a unanimous decision of the Federal Power Commission, to build three dams on the Snake river in Idaho to develop eventually more power than would be forthcoming from a single high dam at Hell's Canyon which Congress has twice refused to authorize and which would have cost the nation's taxpayers at least $400,000,000."



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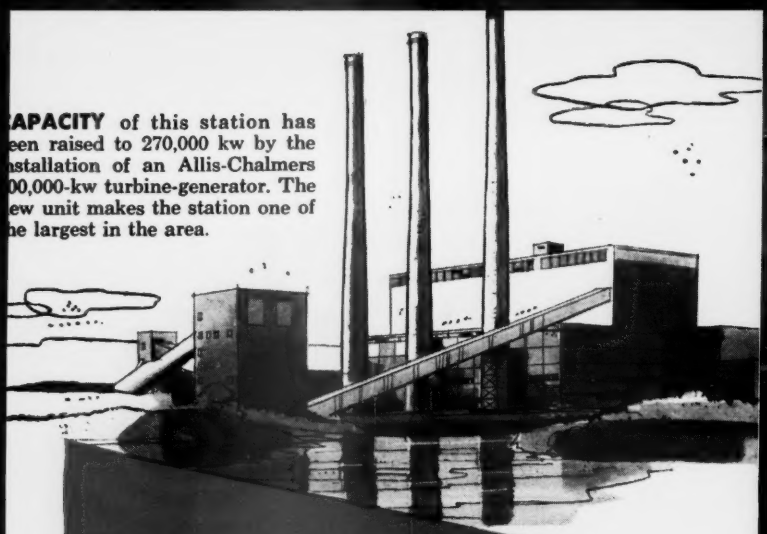
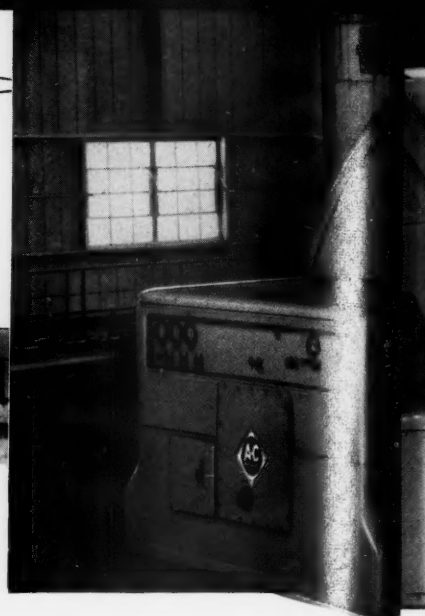
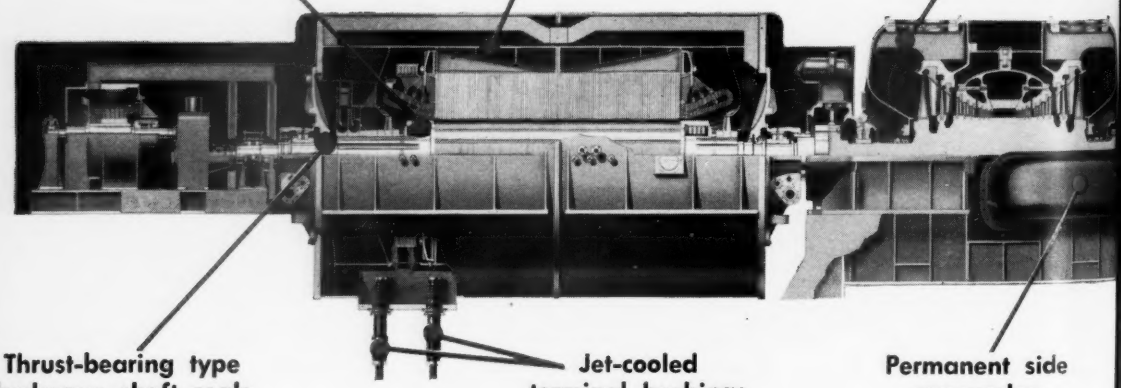
APACITY of this station has een raised to 270,000 kw by the nstallation of an Allis-Chalmers 00,000-kw turbine-generator. The ew unit makes the station one of he largest in the area.





Here's MORE Power



A-C ALLIS-CHALMERS

ALLIS

STEAM CONDITIONS for this 100,000-kw turbine are 1450 psig, 1000 F inlet, 1000 F reheat, 1.5 inch mercury absolute exhaust. Generator rating is 133,689 kva, 0.85 pf, 13,800 volts, 0.64 short-circuit ratio, at 30 psig hydrogen pressure.

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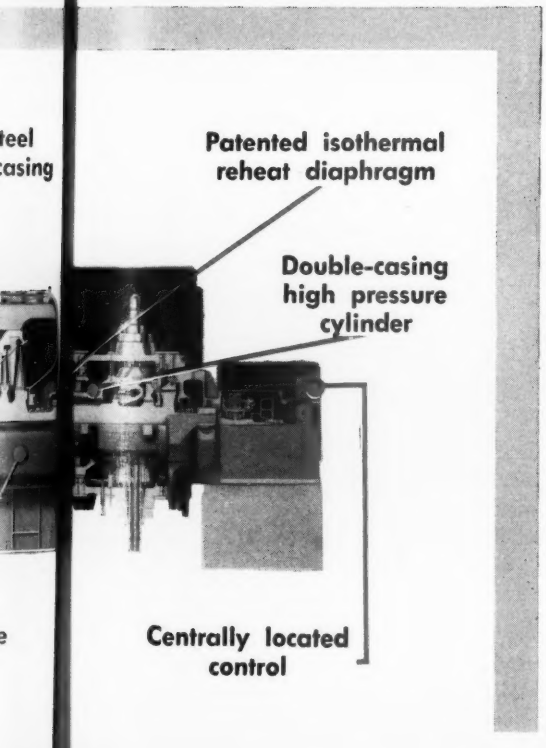

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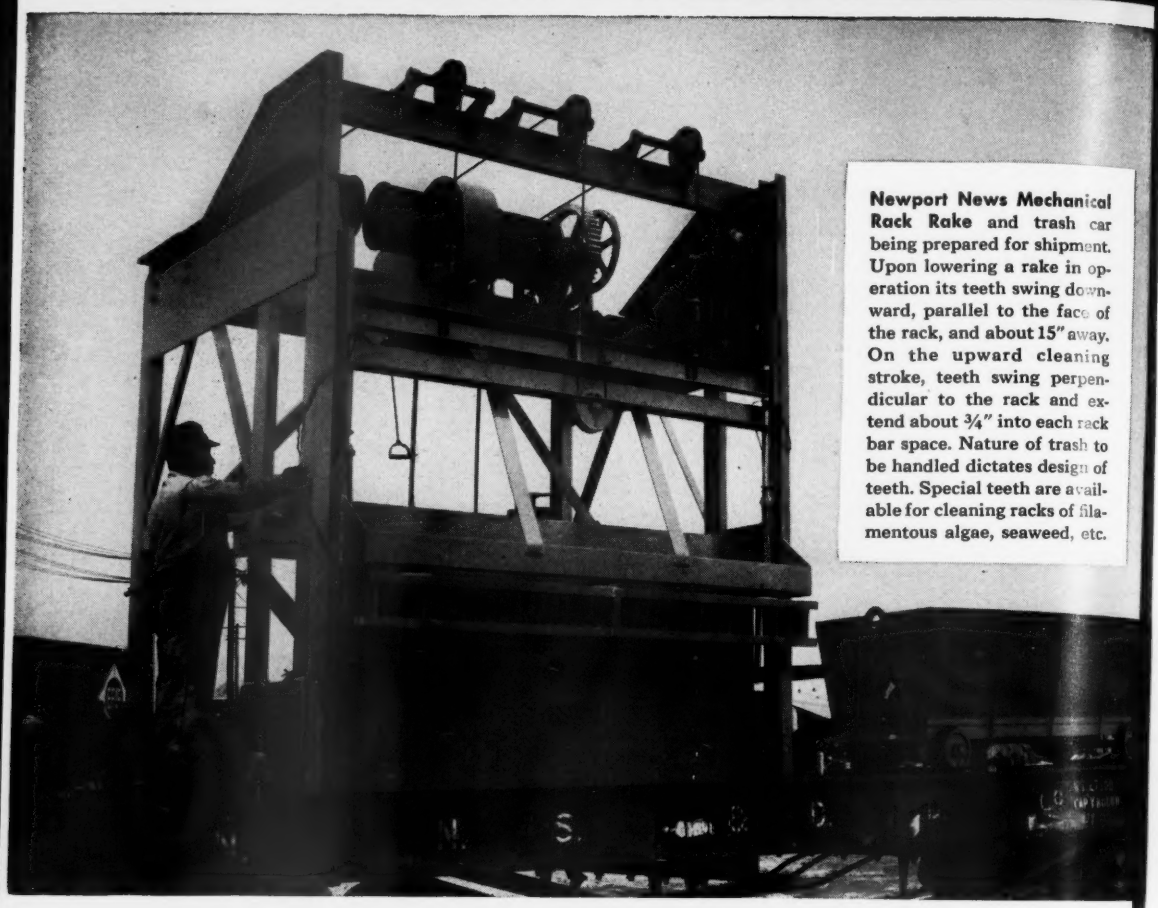

Newport News Mechanical Rack Rake and trash car being prepared for shipment. Upon lowering a rake in operation its teeth swing downward, parallel to the face of the rack, and about 15" away. On the upward cleaning stroke, teeth swing perpendicular to the rack and extend about ¾" into each rack bar space. Nature of trash to be handled dictates design of teeth. Special teeth are available for cleaning racks of filamentous algae, seaweed, etc.

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A·l·m·a·n·a·c·k

MAY

Thursday—10 *Atomic Industrial Forum, Inc., begins meeting, San Antonio, Tex.*	**Friday—11** *Public Utilities Advertising Association ends 2-day annual convention, Philadelphia, Pa.*	**Saturday—12** *International Conference on Large Electric Systems (Cigre) will hold annual meeting, Paris, France. May 30-June 9.* ***Advance notice.***	**Sunday—13** *National Industrial Service Association begins annual convention, Philadelphia, Pa.*
Monday—14 *Pacific Coast Electrical Association begins annual convention, Las Vegas, Nev.*	**Tuesday—15** *Illinois Institute of Technology begins industrial nuclear technology conference, Chicago, Ill.*	**Wednesday—16** *American Gas Association begins chemical, engineering, and manufactured gas production conference, Philadelphia, Pa.*	**Thursday—17** *New York State Society of Professional Engineers begins engineering industries exposition with annual convention, New York, N. Y.*
Friday—18 *Pennsylvania Electric Association, Electrical Equipment and Relay Committees, begin joint spring meeting, Pittsburgh, Pa.*	**Saturday—19** *Edison Electric Institute will hold annual convention, Atlantic City, N. J. June 4-6.* ***Advance notice.***	**Sunday—20** *Industrial Heating Equipment Association, Inc., begins spring meeting, Hot Springs, Va.*	**Monday—21** *Northwest Electric Light & Power Association, Business Developments Section, begins meeting, Seattle, Wash.*
Tuesday—22 *Pennsylvania Independent Telephone Association begins annual convention, Bedford, Pa.*	**Wednesday—23** *National Society of Professional Engineers begins annual meeting, Atlantic City, N. J.*	**Thursday—24** *Pennsylvania Gas Association ends 3-day meeting, Pocono Manor, Pa.*	**Friday—25** *American Management Association ends 3-day general management conference, New York, N. Y.*

Courtesy of Biloxi-Gulfport City Lines, Inc.

Transit Hostess

An interesting experiment in public relations.
(See text on page 700.)

Public Utilities
FORTNIGHTLY

VOL. 57, NO. 10 MAY 10, 1956

Public Relations Build a Better Regulatory Climate

PART I.

The author of this article gives us a good example of how the utility industry's high performance and steadily reducing rates can be clearly presented. Stable rates in the face of steadily increasing inflation did not gain the public recognition for the utilities which these facts deserved.

BY ROBB M. WINSBOROUGH*

THE chief executive of an operating public utility is a man with many demands upon his time. He faces a stream of urgent problems and decisions. He seldom escapes the continuous pressures for his participation in community, civic, and industry matters of importance, to which he must give attention.

Under the pressure of these constant demands upon his time, energy, and attention, it would not be strange if the apparently less urgent matter of public relations got pushed aside.

With most chief executives that does not happen. The fact that it does not happen is strong evidence of the farsighted understanding these chief executives have of the fundamental nature of the regulated public utility and its dependence upon good public relations.

*Consultant, Middle West Service Company, Chicago, Illinois. For additional personal note, see "Pages with the Editors."

By definition, the public utility is a business affected with the public interest. It is a regulated business. Its life is entwined with the political life of the area it serves. Its continued existence depends upon the continued approval of the voters—many of whom are also the customers.

If enough voter-customers decide they do not like the utility, they can arrange for a government-owned utility in its place. In some states the existing utility may continue to compete for a share of the business until its franchise runs out. In states with indeterminate permits, the utility can be taken over by the city very quickly.

ALL but two states have commissions authorized to regulate and investigate utility matters. In the other two states, Iowa and Texas, the municipal governments can investigate and regulate utility service and charges.

In all 48 states, commissions or city governments can start utility investigations.

Generally, the regulatory commissions have been exemplary in their fairness. Nevertheless, the regulatory commissions are political bodies. As such they cannot escape the influence of public opinion. In fact, during the depression thirties, the temper of the general public was reflected in many commission orders which were in fact, if not in theory, punitive orders designed to give vent to the public resentment of the times.

Standing up for the underdog is an American tradition. We believe in defending the "common man," protecting "the people," and fighting the "interests."

The average American utility customer learns suspicion and distrust of "monopoly" at his mother's knee. He absorbs it almost with his mother's milk and clings to it as one of his primary political attitudes all his life. In this he is encouraged by opportunistic office seekers, columnists, and antibusiness writers of books, including textbooks.

Our average customer comes to adulthood with little or no knowledge of utilities. He has little interest in them beyond being sure that the trains and buses will run, the lights light, the gas burn, and the phones ring. Of how these almost miraculous services are made so commonplace, and sold at such remarkably low cost, he has not the slightest idea. Moreover, he is not interested until something goes wrong or he has to pay a bill that he thinks is unreasonable.

Then the latent suspicion and resentment of monopoly can flare into the open with surprising intensity. The utility's efforts to explain things are often met with aggressive hostility and determined disbelief.

THE utility customer is unable to relieve his resentment and end his frustration by going across the street and giving his business to another firm. He can do that if he gets angry with a clothing store, furniture store, or some other merchant.

With the utility he usually has no other choice. He feels trapped. Often he is convinced he is being imposed upon. He has a feeling of being powerless to protect himself, which intensifies the resentment and the frustration.

He has a real defense if he is seriously convinced he is being mistreated. He can appeal to the regulatory body. But the average customer has only a hazy idea of this, if he knows of it at all. Besides, it

involves too much work. It may be unpleasant. He does not like to get involved with courts or commissions or any other arm of the law. Most angry customers do not take their complaints to the regulatory commissions.

The customer has another vent for his anger which he uses with more freedom. He can and does gripe about the utility to his friends and neighbors. He can describe, from his viewpoint, the treatment he has received and paint a black picture of the utility. This relieves some of his own tension and he feels better.

If, over a long period of time, enough customers have experiences which plant this kind of latent resentment, the utility may reap a whirlwind. The latent, diffused resentment may be brought to a head when the utility needs a rate increase, when someone proposes building a government-financed power supply, or when the city proposes going into the utility business to make money.

Examples of this were the many PWA-financed competing municipal electric systems put in during the period of New Deal criticism of the electric companies. Resentments ran high during the depression for a number of reasons. Many office seekers used those resentments to ride into office on inflammatory attacks against the utilities.

The municipal electric systems were, in many cases, an act of vengeance as well as an opportunity to receive a free gift of money from the federal government. The 45 per cent free donation, with the government purchase of the remainder (55 per cent) of the bonds, was an attractive offer. It coupled the appeal of monetary gain with emotional enjoyment in punishing the ancient enemy. And, in fact, that is the way many of the proposals were presented to the voters.

Once built, these mistakes last a long time. No matter what the financial condition is, the city finds it almost impossible to get out of the business because of the official and public attitude. The utility suffers permanent damage through loss of part of its market.

A Depression-taught Lesson

Prior to 1932 many utility executives thought good service at reasonable rates was all that was required to maintain good standing with the public. It was widely asserted that "facts speak for themselves."

This comforting viewpoint received a rude shock.

With the single exception of the two or

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three years around 1920, electric companies had been reducing rates steadily from the day of Edison's Pearl street station. The average customer was getting twice as much electricity for his money as his father got twenty years before. The Americans were enjoying the best electric service in the world. They had the world's largest supply of electric power per industrial worker.

None of this remarkable record served to deter the vicious attack leveled against the electric companies from 1928 on. Nor, for that matter, has the continuing record of improved service and reduced average cost served to silence the political advocates of government expansion in the electric power field and the other apostles of Socialism by indirection.

The moral of the story is that facts do not speak for themselves.

The utilities are victims of this inability of facts to speak for themselves. By keeping alive the bogyman of the power trust and monopoly, the disciples of socialization by indirection have maintained a steady drumfire of propaganda in favor of more and more government power facilities. The myth that TVA is a highly profitable and very beneficial enterprise is still propagated in spite of the repeated TVA annual reports which prove that TVA does not pay its own way.

THE enormous difficulty the Idaho Power Company had in getting the Federal Power Commission to consider its proposal to develop the Snake river is a case in point. It shows how distortions of fact can be used to frighten government agencies, as well as the public.

Recently a Senate committee approved a bill to let the state of New York develop additional power at Niagara Falls. This is another example of the failure of facts to explain themselves. Here is a proposal for outright development of more hydroelectric power without any pretense of flood control, irrigation, or navigation. The companies in New York state have been taking care of the power needs of the commonwealth for three-quarters of a century. The rates are reasonable rates. All of the facts indicate that the people of New York would be better served if the electric companies developed the additional power. Nevertheless, we find a Senate committee approving the development by the state authority.

These examples could be multiplied almost endlessly. Enough have been mentioned to show the critical need for effective public relations to explain and interpret the facts in terms of the American public's real, long-time self-interest. Unless the facts are interpreted and made meaningful to the general public, the socializers will continue to advance their cause on the basis of public misunderstanding.

There is a job to do nationally, but each company must also do its own local job. There are some general principles for conducting a successful public relations program, either local or national. Let's examine them, and their application to the local company's job.

THE first step in a successful program is to fix definite, specific, short-range, intermediate, and long-range objectives. These must be thought out completely and written down in clear statements not subject to misinterpretation or misunderstanding.

These objectives are for the guidance

The Steady Pressure for Government Ownership

"By keeping alive the bogyman of the power trust and monopoly, the disciples of socialization by indirection have maintained a steady drumfire of propaganda in favor of more and more government power facilities. The myth that TVA is a highly profitable and very beneficial enterprise is still propagated in spite of the repeated TVA annual reports which prove that TVA does not pay its own way. The enormous difficulty the Idaho Power Company had in getting the Federal Power Commission to consider its proposal to develop the Snake river is a case in point. It shows how distortions of fact can be used to frighten government agencies, as well as the public."

of the persons who will direct and participate in the program.

The second step is to determine objectively the obstacles which lie between the present status and the desired objectives. This usually involves some kind of public and employee opinion and attitude survey. It always involves an analysis of the historical factors in the situation and the relationships between the important groups and personalities involved.

The third step is to determine the themes that will be used and the plan of action that will be relied upon to overcome the obstacles revealed by the analysis suggested above.

The fourth step is to outline the organization that will be needed within the company, and within the territory, to carry out the plan.

The fifth step is to itemize the individual steps that will be taken to carry out the plan. This may, and usually does, in-

volve things like a public relations self-audit to determine what is being done wrong now. It probably will include plans for the creation of favorable news, staging of opportunities for public talks, public appearances, plant visits, and other opportunities for emphasizing the themes of the program.

The final step is a continuous one: supervision of the entire activity to see that all of the individual steps are carried out in proper sequence, and effectively.

A Typical Company Approach

FOR illustration, let us apply this analysis to the problem of an electric light and power company serving a large area with a few good-sized cities and many small towns, villages, and hamlets.

A reasonable long-time objective would be to win such high public approval that it would protect the company against any agitation which might be stirred up. The intermediate and short-term objectives would be to overcome specific obstacles to this goal. This means we must find out what the obstacles are. What is the public relations status now?

Public relations are good if the people in the territory served by the utility:

1. Think the service is excellent.
2. Think the rates are reasonable.
3. Like the utility employees.
4. Think the utility is a good place to work.
5. Prefer service from the company to service from any government power project.
6. Believe that the utility can be relied upon to provide all future needs for electric service.
7. Believe the utility makes a real contribution to growth and well-being of the area it serves.
8. Believes the utility is a good "corporate citizen" of the area.

A public opinion and attitude survey is the most reliable method for finding out how the people think, feel, and believe on these points.

TO meet the foregoing requirements of good public relations, the utility must fulfill these obligations to the public it serves:

1. Provide adequate service.
2. Sell service at reasonable prices.
3. Have courteous, competent employees.
4. Treat employees fairly.
5. Take active part in civic affairs, support local charities and schools.
6. Assist in growth of area served.
7. Plan and build for the future.
8. Have its employees take active parts in community life.
9. Tell the public it does all these things.

Whether the company is meeting these obligations satisfactorily can be best determined by a *combination* of self-audit and public and employee surveys.

PART II *of this article will appear in the next issue of the* FORTNIGHTLY.

Managerial Freedom and The Railroads

The railroad industry may well stand at the threshold of its greatest opportunities in a half-century. The economic outlook, plus the growing tendency toward possible relief of rail transport from burdensome regulation and control, may well signal a new age of rail progress.

By HAROLD KOONTZ*

THERE are several straws in the wind indicating that a new day may be dawning for railroad management in America. As is well known, the railroad industry reaches into virtually every nook and cranny in the land and its services and rates affect almost every business enterprise, either directly or indirectly, through their influence on other forms of transport. It is also a well-established fact that this great industry is one of the oldest and most regulated by government in the nation and one whose maturity often implies a lack of opportunity for growth. Indeed, there are many railroad executives who privately mourn the passing of the "good old days" and who feel that the industry will do well to hold its own in the future. The "railroad problem" ever seems to be before the public and the not unjustified wails of railroad publicists against unfairly favorable treatment of younger competitors are sometimes reminiscent of the cries of the stagecoach and canal boat operators of the 1830's.

There are certain factors in the present situation, however, which lead this writer to believe that the railroad industry stands this very moment at the threshold of its greatest opportunities in a half-century, if not, indeed, in its history. Perhaps the most important of these is the economic outlook of the nation and the strong prob-

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ability that the gross national product will double in the next two decades. Another factor is the indication that the pendulum of throttling government control may be swinging toward greater freedom. The report of the Presidential Advisory Committee on Transport Policy and Organization, issued late in the spring of 1955, definitely recommends a freer program of regulation and greater reliance on competition. Likewise, the expanding economy of the past decade has tended to bring with it a new kind of competitive vigor which promises to grow and the public shows less interest in bridling this competition by government action. The once well-founded fears of railroad monopoly have been fairly largely dispelled by the strong competition among the various types of carriers—rail, highway, water, air, and pipeline—and by a strong competition between companies in the railroad field.

The Future Transportation Market

ECONOMISTS and businessmen seem to be agreed that the tools are available in government so to control the entire economy as to avoid a major recession of the kind which followed 1929. If this is true, and the tools as well as the political expediency do seem to exist, a steady and remarkable increase in the economy seems certain. This means an opportunity for expansion and profits, an opportunity in which the railroad industry *can* share to a greater or lesser degree, depending upon the aggressiveness and ability of railroad management from top to bottom, in accounting, traffic, operations, and every other functional field of the business.

While one cannot help but be wary of the kind of optimism which led to the "new high plateau" feeling of 1928, there do appear to be reasons for having confidence in projections of the future American economy. In the first place, our know-how as to government control of the over-all economy for stability and growth has improved greatly in the past quarter-century. In the second place, one of the advantages of "big" government is that its expenditure, fiscal, and monetary policies can be used for control of the economy; a national government spending some 3 per cent of the national product, as it did in 1929, cannot have the influence of one spending some 20 per cent, as it did in 1954. A third factor is the temper of the electorate. The enjoyment of full employment during and since World War II and the increased production it has brought, despite huge expenditures for defense, have unquestionably conditioned the American voter to expect and demand a full-employment economy, an economy with almost certainly not more than 5 per cent of the labor force unemployed.

BY simply assuming such full employment, a rise in the labor force to reflect population increases (say, from 68,000,000 in 1954 to 81,00,000 in 1974), an increase of productivity per worker of a conservative 2.5 per cent each year, and a moderate decline in the workweek through longer vacations and somewhat shorter hours (say, from slightly above forty hours per week to thirty-five), one cannot help but forecast an astounding increase in the American economy in the next two decades. In fact, such a calculation would indicate for 1974 a gross national product of some $700 billion or almost twice that experienced in 1954. This projected growth of the economy spells opportunity for transportation, since

every modern nation is built on it and its volume tends to vary almost directly with economic growth. This also spells opportunity for the railroad industry. The question is: Will the railroads get their share of the expanding national economy?

IT is interesting in this connection that, of the total intercity freight traffic handled by all carriers in 1926, the railroads carried 447 out of the 564 billion ton miles, or nearly 80 per cent. Even in 1953 after the rapid growth of motor trucks and pipelines, the railroads handled 614 billion of a total of 1,190 billion or approximately 52 per cent of domestic intercity freight traffic. Even assuming that the railroad's share of total traffic will continue to diminish somewhat, it is difficult to see how the railroads will carry less than 1,000 billion ton miles of traffic by 1974, or an increase of some 65 per cent. And since the total volume of intercity freight traffic is forecast to be at least 2,300 billion ton miles in 1974, the railroads could carry 1,200 billion by merely holding their current relative position. Whether the railroads obtain more traffic, or less, will depend not alone on their competition but also on their ability and willingness to get the business.

THE opportunity does not seem to be limited to freight traffic. While the railroads have become of lesser importance in passenger traffic as the private automobile and the airlines have made inroads in this area, and the railroad share of total traffic will doubtless continue to decline, there is still a conservative possibility that rail passenger service can enjoy a sizable increase in the next two decades. Forecasts made by the writer indicate that common carrier intercity passenger traffic, by all principal modes of transport, will increase from approximately 61 billion passenger miles in 1954 to 105 billion in 1974.

While the airlines are expected to enjoy the greatest benefits from this increase, it is believed that the railroads' share could rise from a little less than 25 billion passenger miles in 1954 to 35 billion in 1974. In other words, there is every reason to believe that the railroads can gain some from the great expansion in common carrier passenger traffic expected.

The increase in total ton miles and passenger miles which must and will accompany the expansion of our economy offers the railroads an attractive future market which neither they nor the public interest can allow to be underestimated. There is

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¶ "THERE *are several straws in the wind indicating that a new day may be dawning for railroad management in America. As is well known, the railroad industry reaches into virtually every nook and cranny in the land and its services and rates affect almost every business enterprise, either directly or indirectly, through their influence on other forms of transport. It is also a well-established fact that this great industry is one of the oldest and most regulated by government in the nation and one whose maturity often implies a lack of opportunity for growth.*"

no new basic medium of transport like the pipeline, truck, or airplane in view in the next two decades. But there is in view a kind of aggressive competition in all kinds of businesses, including the transportation business. An expanding economy usually brings improved technology, lower costs, better products, and services, and these spell competition with a tendency for the fittest to survive. Moreover, in the period ahead, there is reason to believe that improvements in technology will be so widely shared that the real competitive edge will come to those companies characterized by an intelligent, forward-looking, hard-hitting, and effective management team which will harness and lead that most elusive of all resources—the human will and intelligence to work co-operatively toward a common goal.

Public Policy for Meeting the Challenge of the Future

To meet this challenge for the future, American railroads must insist that their management be returned to their managers. The stultifying effects of detailed regulation, the deadening hand of government promotion, the red tape of government procedure, the specious security of government economic controls, and the inflexibilities of government-administered decisions in labor matters, finance, operations, and marketing are poor substitutes for the hard-hitting management team operating under the spurs of private ownership. After all, it is difficult enough in the environment of a large organization such as one of our major railroads to maintain a flexibility and light-footedness to handle competition, without attempting to have so much decision making operating in the further framework of the many administrative organizations in our 48 states and the federal government.

From the standpoint of public policy, the requirements of the railroads can be summarized by suggesting three freedoms which both federal and state governments should give. These are: (1) freedom to compete; (2) freedom from uneconomic and unfair subsidy of competitors; and (3) freedom to be efficient. Their meaning in terms of public policy might be summarized as follows:

Freedom *to Compete.* It is certainly reasonable to argue that government policy should either consistently aim at making competition effective or at promoting monopoly and gaining its fruits. It should hardly try as it has in the past to do both. The *fact* is that the transportation industry in the United States has developed as competitive enterprise. Nor is this believed to be an undesirable development. One need only compare the tremendously effective system of transportation in the United States today with that in most foreign nations, particularly where government-owned railroad companies exist, to find out how American prosperity and industrial efficiency have benefited from ample and relatively efficient railroad facilities.

There is, therefore, neither the justification nor the inclination to depart from the tradition of competition in the American transportation industry. Under these circumstances, restrictions on free competition in transportation should be reexamined in the light of clearly defined public needs to ascertain whether it would not truly be in the public interest to give companies more freedom to compete. One must recognize that the peculiar nature

The Future of Railroad Passenger Traffic

"WHILE the railroads have become of lesser importance in passenger traffic as the private automobile and the airlines have made inroads in this area, and the railroad share of total traffic will doubtless continue to decline, there is still a conservative possibility that rail passenger service can enjoy a sizable increase in the next two decades. Forecasts made by the writer indicate that common carrier intercity passenger traffic, by all principal modes of transport, will increase from approximately 61 billion passenger miles in 1954 to 105 billion in 1974."

of transportation, by which it affects so many other industries and the economy as a whole, may ever require that this industry be regulated to a greater extent than most others. It is entirely possible that limitations of location, heavy capital requirements, and the pervasive effects of price and service discrimination may make it unwise to allow the industry to be as free to serve the public as is the case with the drug, soap, or automobile manufacturing industries.

But if the transportation business is to continue as a competitive one, and if the public is to gain the economies and service advantages of competition, regulation should be patterned to suit. It is certainly not reasonable at this time, when monopoly has given way to competitive conditions, to continue controls and other policies perfected at the turn of the twentieth century when the railroads were often monopolistic.

FREEDOM *from Uneconomic and Unfair Subsidy of Competitors.* It is obviously not enough to free the railroads from the blocks against competitive behavior if the federal and state governments do not also set up an environment conducive to

fair and open competition. The major impediment to this environment within the power of government lies in public financing of transportation improvements and government subsidy of carriers. Clearly, if any company or method of transportation is given a subsidy or is not levied its fair share of cost for transportation improvements, while other companies or modes of transportation are paying their full share, the government is establishing an environment where free and effective competition under private management cannot exist. Unequal government support of transportation does not only exist in such obvious cases as air-mail subsidies but in the far less obvious cases of financing public road or waterway improvements out of public funds without regard to levying costs fairly on the beneficiaries.

THE fair allocation of such costs to users is an extremely difficult task and can be subject to fair disagreement. Moreover, there are undoubtedly cases where subsidized transportation may be justified by public need. This is certainly the case with schoolbus service and rural free delivery of mail, and may even be the case with some of the local service airlines. But where government aids cannot be justified by a clear and compelling public need, government not only interferes with effective competition based on efficiency but also with the allocation of resources which have been so effectively rationed by the forces of demand and supply.

In those cases, such as public highways, waterways, and airways, where government aid is necessary to obtain facilities but where the public interest does not justify subsidy to certain users, there appears to be no better guide than to allocate costs in accordance with beneficial use. If a company or form of transportation receives benefits, the cost of any public improvement should be allocated in accordance with the use which gives rise to these benefits. If, as is the case of some transportation facility improvements, the benefits accrue to the public at large, whether for defense, social, or other purposes, then the public should bear the cost of the improvement through the operation of established methods of tax collection.

FREEDOM *to Be Efficient.* There is ample reason to believe that public policies have interfered materially with effective management. This is most clearly indicated in the problems of meeting competition with the shackles of monopoly-type regulation. But there are many other areas where regulation has weakened management and, while what is said applies to all forms of regulated transportation, the maturity and thoroughness of regulation in the railroad industry make it especially applicable to that industry.

One of these is the preoccupation with controls which regulation forces on a carrier manager. The limits placed on railroad company price policies which keep these companies from meeting traffic demands and competition, the attention paid by railroad companies to auditing and reauditing freight bills (even items of negligible financial import), the cumbersome machinery for changing prices of service, the detailed interferences with accounting and financial procedures, the imposition of pseudosafety regulations (such as full crew laws) by the state governments, and the complicated legalistic approach to working conditions involved in government adjudication of railroad manage-

ment-labor rules may be cited as examples. These and other features of regulation require so much of the energy and attention of carrier managers that they often have little time or inclination to undertake effectively the more important job of running their companies. Observation of many railroad companies sometimes leads one to the cynical conclusion that certain of these companies are run for the purpose of meeting regulations and not to produce the best kind of service at the lowest cost.

FURTHERMORE, the fact that regulatory commissions have the power to establish rates, to set service standards, to limit the right of entry into a market, and to stop a company from eliminating an unprofitable service, along with the many other substantive applications of control, causes interference with traditional areas of strategic decision making of the normal business enterprise. With so little control over their own existence, many transport managers understandably feel thwarted in planning and executing courses of action designed to improve their company's operations.

Moreover, problems brought on by change—problems with which every enterprise must cope if it is to maintain its successful existence—must be met quickly. Delays in reaching decisions are inherent in the regulatory process where the requirements of due process make it necessary that all concerned with the matter be heard.

In addition, for the job they are required to do in analyzing all the evidence and reaching conclusions, most regulatory commissions are seriously understaffed. While the delays in reaching decisions by commissions are understandable, the fact that commission procedure is not conducive to arriving at business decisions expeditiously is not always appreciated.

THE *Cabinet Committee Report on Transportation.* From the standpoint of regulation and its interferences with the future of the railroads, there does appear to be a hopeful ray of light. Public opinion does seem at long last to be swinging away from complete control of enterprise and the administration now in Washington has displayed a refreshing attitude toward the revival of private management of private enterprise.

The President's Cabinet Committee on Transport Policy and Organization recom-

¶ "THE *economic outlook for transportation and the probability that railroad management will be increasingly returned to its managers by this government underline the need for more aggressive planning, not only at the top of the enterprise but at all levels in the organization. This implies the establishment of clear goals, forecasts of markets and trends, analysis of customer demands and competitors' plans. It requires thinking ahead, timing, a willingness to take a chance, and increased emphasis on research, both technical investigation and study of business, economic, and human problems.*"

mended in April, 1955, that regulatory policy be relaxed so as to permit freer and more efficient competition in the transport industry while at the same time maintaining controls over the excesses of competition. This is particularly noteworthy in the field of rate making. The committee also expresses commendable objectives in recommending relaxation of the amount of procedural delay and complexity in commission approval of questionable rates and in suggesting that the Interstate Commerce Commission be empowered to override state governments requiring continuance of unprofitable services. Other recommendations asking, among other things, for sharper definition of carriers subject to regulation and thereby promising to eliminate certain aspects of unfair competition, are also praiseworthy.

BUT the Cabinet committee recommendations, even if followed, leave much to be desired in accomplishing the three freedoms sketched above. They still leave untouched a considerable volume of regulation impinging on management. They still do not open the way for a company engaging in transportation to use the tools of the transportation trade, whether these tools have rubber tires, steel tires, watertight hulls, or wings. They do not touch on the problem of unfair or uneconomic subsidy of competitors. But the Cabinet report does do one thing which should make it a real milestone in transportation history. It does recognize the inherent competitive nature of the transportation business and expresses a basic philosophy that successful competition requires a maximum of freedom from detailed regulation by the government. There actually appears to be some reason for optimism that a new freedom may be coming in railroading.

One should not be surprised that the revised approach to national transportation policy encompassed in the Cabinet report should bring forth a considerable outcry of opposition, particularly from the competitors of the railroads. This is understandable in a competitive system. One is not too surprised that certain shippers feel uneasy at the prospect of not having a ready tribunal in Washington to hear their price and contract negotiations. It is a little surprising, however, when certain elements in the railroad industry fear too much deregulation. Such fears in the railroad industry seem to be like the misgiving of the life termer who has concern about his ability to be happy in the cold, unsheltered world outside.

Management to Meet the Challenge of the Future

WHAT worries some persons inside the railroad business, many intelligent traffic managers, and others, is whether or not the railroad industry is temperamentally fitted and managerially tooled up to take advantage of the new freedom. After decades of having their major price, market, service, and financial decisions scrutinized and often made by an administrative commission, many railroad managers, it is feared, will be unable to cast off this regulatory cloak and carry on efficiently and effectively in the market place.

In arguing against deregulation, one major enterprise traffic manager expressed to the writer a curious point of view. He opposed the recommended freedom in rate making involved in the Cabinet committee's report on the grounds that the Inter-

Legalistic Restraints

"OBSERVATION and study of the railroad business lead to the conclusion that there is an understandable tendency to rely too much on legalistic processes. There has appeared, at times, to be an undue preoccupation with courts and commissions, an undue emphasis on meeting competitive problems by resort to government action, a desire to solve problems of unequal regulation by trying to saddle competitors with similarly obsolete controls, and a magnified fear of doing something of which an Interstate Commerce Commission auditor or examiner might be critical. While the desire to live within the law is a laudable objective, it can overshadow other considerations important to aggressive competitive management."

state Commerce Commission was the *only* arena he had to make sure that the traffic and service needs of his principal were considered by certain railroads. It is barely conceivable that any company manager would neglect to study his customers' needs, to serve them to the best of his ability against competition, and to base his plans for service on a careful analysis and forecast of the market. However, it could be that the tendency for so many major matters to be decided at the level of the Interstate Commerce Commission may have forced the railroad managers concerned to concentrate their efforts on the case when it reached the commission.

THE *Need for a Philosophy of Management.* Whether deregulation comes or not, and there is reason to believe that it will to a considerable degree, the future deserves, on the part of any company which wishes its share of future business, an increased emphasis on the managerial job. The complexity of modern business, the tendency of technical improvements to outrun the ability to manage, the rise of national unions, and the recognition that the will to work co-operatively and effectively does not just happen, have caused managers in all kinds of businesses to re-examine their jobs. As a result, there has arisen a tremendous interest in this task of getting things done through people and a search for a science of management and the principles which underlie it.

What every company which would meet

the challenge of competition by good management needs is a clear philosophy of management. There are an increasing number of companies, both large and small, in the American scene which have developed a strong philosophy of management and there are a number of railroad companies in this category. There is, however, reason to believe that the cloaks of regulation and age have led many railroads to overlook this emphasis on the managerial job. What is required is a recognition that management, at every level in the business, is, as Peter Drucker has said, "the dynamic, life-giving element in every business." This is a recognition that capital resources, good equipment, fine research engineers, customers, or the government do not make an effective business and that management calls for abilities and preparation that no other activity demands. One can be a good salesman, a competent accountant, an excellent train dispatcher, or a good roadway engineer, but these skills are no indication of the ability to manage. For the manager must know how to forecast and plan, how to organize, how to train and select his subordinates, how to direct his department, and how to control activities so that plans are converted to realities.

THE effective accomplishment of these managerial functions requires, then, a philosophy of what management is, a realization that there are principles to guide behavior, that some of the "know-how" of management can be replaced with science, and that good managers do not "just happen." One cannot deny that management will ever be largely an art and that good management will ever require experience and practice. The manager without science is like the medical quack but the manager without know-how and experience may be compared to the inexperienced medical school student.

However, the manager must realize that it is his job to establish goals and the plans for reaching them, to create the organizational framework through which these can be accomplished, to furnish direction and leadership to the company's human resources, to train managers for the future, to place an important price tag on good management, and to take steps to make sure that plans are accomplished. The excellence with which this task is done will certainly determine more than any other factor the future success of any company in the competitive era ahead.

OVERCOMING *Procedural Inflexibility.* Observation and study of the railroad business lead to the conclusion that there is an understandable tendency to rely too much on legalistic processes. There has appeared, at times, to be an undue preoccupation with courts and commissions, an undue emphasis on meeting competitive problems by resort to government action, a desire to solve problems of unequal regulation by trying to saddle competitors with similarly obsolete controls, and a magnified fear of doing something of which an Interstate Commerce Commission auditor or examiner might be critical. While the desire to live within the law is a laudable objective, it can overshadow other considerations important to aggressive competitive management.

One cannot have good business planning, and the decision making which it implies, in an environment so circumscribed by procedure and rule as to make mistakes impossible. Planning necessarily

involves making decisions for the future and the future is never free of uncertainty and risk. Admittedly, this preoccupation has been forced on the railroad industry by the needs of safety and by the chains of regulation which extend back over the past three-quarters of a century. But, until the regulatory chains are loosened, it requires all the more that managements—top, middle, and bottom—concentrate their attention upon the real goals of their company or department. It means the development of an aggressive business spirit so well expressed recently by a major railroad traffic vice president, who growled to the writer on this general subject—"Let the competition come, we're ready to handle it!"

EMPHASIZING *the Importance of Managers.* Along with the need for a philosophy of management, any company which expects effectively to meet the new competition, and especially one which cannot expect to corner sales by innovations protected by patents, cannot fail to emphasize the importance of managers at every level and in every function. Again, study of the railroad industry leads to some misgivings in this regard. This reaches a sensitive point when one looks at managerial salaries, especially for those in the middle and lower managerial ranks. One typical large railroad pays a chief clerk, with years of capable experience and with responsibility for directing thirty-five people, a salary less than many college engineering graduates get in their first job in an electronics factory. The average pay of all chief clerks in major departments on class I railroads was only $486 per month in 1953, and their brethren in minor departments received only $412. This is less than the typical union painter's pay. Chief train dispatchers did better, averaging $628, while yardmasters received only an average of $560, a figure somewhat below the passenger train "foremen"—the conductors—who averaged $570 per month. But this is not nearly the whole story.

Reports made to the California Railroad Commission and open to public scrutiny disclose similar low salaries for higher railroad managers. The general manager of the shops of one of our largest railroads with tremendous responsibility and supervision over several thousand persons receives $12,500 per year. A similar position in another major industry would pay double this amount. A regional traffic manager for a large railroad is paid some $15,000 per year while his brother in a similar position in a large airline—but a much smaller business—receives nearly 50 per cent more, and a person with

¶ "STUDY *of the management selection and training programs of a large number of well-managed American enterprises shows that the railroads do not lead in this regard. While these and other evidences of a lack of program do not prove that the railroads are not developing managers or that a formalized program is necessary for such development, they do raise a question as to how seriously the railroad companies are approaching this problem.*"

similar responsibilities in a local manufacturing concern receives double that amount. Other comparisons of this kind could be quoted.

It must be admitted that salary scales alone do not disclose exactly the attractiveness of railroad employment compared to other employments. But this "green pennant" of American free private enterprise is a pretty good indicator. Moreover, few indeed are the railroads which think so highly of the managerial job as to offer their key managers stock options, bonuses, or the other emoluments which have become standard in many other businesses as devices to entice and stimulate the best possible management achievement in their companies. If the railroads were to increase the pay of their key managerial personnel to place them on an equal footing with American industry and thereby become competitive for this priceless ingredient of aggressiveness and efficiency, it is estimated that the cost would be approximately one per cent and certainly not more than two per cent of their operating revenues. This would seem like a justifiable cost which would quickly be recouped in benefits.

GREATER *Attention to Management Selection and Development.* Although certain railroads show tangible interest in giving greater attention to management selection and training, there are indications that this interest is belated in these cases and is virtually nonexistent in most companies. Study of the management selection and training programs of a large number of well-managed American enterprises shows that the railroads do not lead in this regard. While these and other evidences of a lack of program do not prove that the railroads are not developing managers or that a formalized program is necessary for such development, they do raise a question as to how seriously the railroad companies are approaching this problem.

Most of the men who have been leading the railroad industry and its organizational components have come up from the ranks and came into their companies three or more decades ago. The Great Depression, the years following, and the years of World War II were not conducive to bringing many new men into the industry. In recent years it is feared that the industry has not attempted to attract the best possible young men into its ranks. The result of these years of limited recruitment has been a shortage of promotable managerial man power in many of the railroads, and this shortage has forced on the senior men in the industry such heavy burdens that they have not been able to devote as much attention as they would doubtless like to the development of managers. After all, personnel departments can act as service agencies in this job and universities can do much to instill a philosophy of management through their advanced executive training program, but the primary training of managers must come through the coaching of junior managers by their superiors in the actual day-by-day activities of management.

PERHAPS one of the best indicators of the shortcomings in managerial development is the fact that very few railroads raid our colleges and universities for young college graduates and induce them to come into their companies. Almost every well-managed major firm and many lesser firms in other major indus-

tries descend on our campuses to recruit men which they hope may become future managerial timber. Even though there are many, many noncollege men who have far more ability than college men, there are too many statistical proofs in favor of recruiting some college men for future growth to overlook this source.

Students today are admittedly somewhat spoiled by the job opportunities offered them and the successful bidder for the best students must offer some kind of program and a fair, decent starting pay. Some railroad executives claim that they cannot offer inducements similar to the oil, manufacturing, banking, and trade companies because of the stranglehold of union seniority in the starting ranks. This is not an acceptable excuse since this problem can be, and has, on occasion, been solved.

NEED *for More Aggressive Planning.* The economic outlook for transportation and the probability that railroad management will be increasingly returned to its managers by this government underline the need for more aggressive planning, not only at the top of the enterprise but at all levels in the organization. This implies the establishment of clear goals, forecasts of markets and trends, analysis of customer demands and competitors' plans. It requires thinking ahead, timing, a willingness to take a chance, and increased emphasis on research, both technical investigation and study of business, economic, and human problems.

There is room for doubt whether the railroads have set their goals high enough and whether their plans are geared to high enough objectives. The writer does not for one moment believe, as two middle-management executives informed two students of his recently, that there is no future in the railroad business and that an ambitious young man should go elsewhere.

On the contrary the evidences before us appear to paint the most hopeful future signs which have been seen in more than a quarter-century. The market for transportation appears to be one which will all but double in the next two decades. There is a slight but hopeful sign that a new day may be awakening in government policy and that fetters on railroad competition will be loosened. But as business opportunities expand and as public policy increasingly turns railroad management over from the hands of the commissions and agencies to the railroad managers, there is every reason to believe that the determining factor for future success will be the quality of railroad management. Moreover, the public itself will be more likely to turn the managerial reins over as they see forceful management operating this great industry in the truest traditions of aggressive free enterprise.

IN the recognition of the importance of management from president to section foreman, in the establishment of a clear philosophy and goals of management, in placing emphasis upon the development of managers and their more proper compensation, and in making excellence in management the essential item in promotion for managerial jobs, strong management can be perpetuated and enforced. Such a movement is on foot in various places in the railroad industry. One hopes that it will be accelerated.

The Outlook for Natural Gas Earnings

Consideration is given to the dividend pay-out records of nearly two-dozen companies to common stockholders over the past thirty years. This writer sees no disturbance to the financial positions of the natural gas companies as a result of the gas bill defeat. Quite to the contrary, traditional growth and vigor of the industry seem assured.

By ERNEST R. ABRAMS*

Now that exemption of regulation of producers and gatherers of natural gas by the Federal Power Commission is out of the picture for the balance of 1956, and possibly forever, as a result of the President's veto of the Fulbright-Harris Bill and his accompanying message, what is the outlook for earnings available for dividends on natural gas company stocks? Were the production and transmission divisions of the industry merely hollering "wolf" in the days when exemption measures were under the consideration of Congress, or did they have well-grounded reasons for fearing the future? Suppose we follow the oft-given advice of the late Al Smith and "look at the record."

This unwanted jurisdiction over the production and gathering of natural gas entering interstate commerce was not imposed upon the FPC until June 7, 1954, when the U. S. Supreme Court, in the Phillips Petroleum decision, told the commission to get on with its job. And for the balance of 1954 and throughout 1955, the FPC proceeded to regulate these phases of natural gas operations in a timorous fashion, uncertain whether its newly imposed regulatory powers might not shortly be taken from it through congressional ac-

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tion with presidential approval. At any rate, the variety of regulation that was imposed upon producers and gatherers during the nearly nineteen months between the Phillips decision and the close of 1955 was comprised mostly of requests for information and a few "tut-tuts."

THE first 35 natural gas companies to report operating results for 1955 do not appear to have fared too badly in comparison with previous "unregulated" years. Although three companies showed a combined decrease in net income, available for dividends on their preferred and common stocks, of $909,272 from the 1954 level, the aggregate net income of the 35 companies listed in the accompanying tabulation rose $53,508,927 or 23.65 per cent above the 1954 mark.

TABLE I

COMPARATIVE NET INCOMES OF 35 NATURAL GAS COMPANIES FOR THE CALENDAR YEARS 1955 AND 1954

Company	*1955*	*1954*
I—American Natural Gas	$14,856,446	$12,967,581
D—Arkansas Western Gas	569,823	494,542
D—Brooklyn Union Gas	5,039,000	4,650,000
D—Central Indiana Gas	909,914*	1,114,359
I—Columbia Gas	23,688,000	19,550,000
I—Consolidated Gas Utilities	944,371	891,395
I—Consolidated Natural Gas	23,258,390	19,636,031
P—Hugoton Production	2,630,615	2,303,491
D—Indiana Gas & Water	2,060,136	1,728,086
I—Kansas-Nebraska Natural Gas	2,690,214	1,639,146
D—Laclede Gas	3,419,856	3,082,253
I—Lone Star Gas	12,682,675	10,875,164
T—Missouri-Kansas Pipe Line	1,359,374	1,121,376
I—Mountain Fuel Supply	3,923,656	2,825,131
I—National Fuel Gas	6,599,295	5,850,611
D—New Jersey Natural Gas	827,974	714,100
D—Northern Illinois Gas	7,941,356	6,229,108
I—Northern Natural Gas	14,384,796	11,477,394
I—Oklahoma Natural Gas	5,945,000	4,886,000
I—Pacific Lighting	19,103,177	15,578,506
I—Peoples Gas Light & Coke	14,018,430	12,167,857
I—Pioneer Natural Gas	2,752,747	2,491,872
D—Rio Grande Valley Gas	544,545	484,012
T—Southern Natural Gas	8,534,139	6,497,643
I—Southern Union Gas	4,025,464	3,304,096
D—South Jersey Gas	926,011	863,915
I—Southwest Natural Gas	463,894	320,046
T—Tennessee Gas Transmission	30,316,277	22,075,520
T—Texas Eastern Transmission	16,793,525	12,986,145
T—Texas Gas Transmission	5,722,000	5,031,000
T—Transcontinental Gas P. L.	9,987,027	8,550,719
I—United Gas Corp.	26,155,913*	26,749,356
D—United Gas Improvement	2,791,570	2,724,851
D—Washington Gas Light	3,946,450	3,530,461
D—Wisconsin Natural Gas	730,953*	842,337
Total—35 Companies	$279,743,011	$226,234,084

D—Primarily distribution.
P—Primarily production.
T—Primarily transmission.
I—Integrated.
*—Indicates decrease.

Breaking down the 35 companies into four groups by their principal activities, we find that the one "straight" production company had a gain of $327,124 or 14.20 per cent in net income; the six companies engaged primarily in interstate transmission reported an aggregate increase of $16,449,959 or 29.24 per cent; the 12 companies engaged principally in the distribution of gas to ultimate consumers showed a boost of $3,249,562 or 12.28 per cent; and the 16 integrated companies engaged in two, at least, of the three main divisions of the industry reported an aggregate increase in net income of $33,428,282 or 23.71 per cent from the 1954 level. None of the 35 companies appears to have been badly hurt so far by the extent of FPC regulation to which they have been subjected.

ALTHOUGH 35 companies may appear to be a small sample of the natural gas industry on which to base conclusions, results of one of the four groups, at least, have been confirmed by the Federal Power Commission. In a recent release covering 36 interstate natural gas pipeline companies, the FPC reported an aggregate gain in net income of $48,028,566 or 29 per cent in 1955 over the previous year, which is about the size of the gain reported by the six transmission companies used in these calculations. Furthermore, although only one purely production company is included in the 35 companies under review, some of these transmission systems and many of the integrated companies in the list were engaged to a greater or less extent in production during the past two years, which exerted an undisclosed impact on their earnings.

Little benefit from newly discovered production in the offshore areas of Louisiana and Texas has been reflected so far in an AGA committee's estimates of proved recoverable reserves of natural gas. Yet, Continental Oil Company recently announced that it has completed 155 wildcat wells in these offshore areas and has discovered 64 new oil and gas fields—a ratio of one new field for each two and one-half wells.

Since not all of the companies in this group, which did engage in the search for oil and gas during 1955, have released detailed data so far, it is impossible to determine the extent of their exploratory activities over the past two years, but the record of the entire petroleum industry will provide some clew to their operations. During 1955, a total of 56,682 wells were drilled to completion in the United States, compared with 53,930 in 1954 and an average of 50,046 in the 5-year 1951-55 period. And of the total wells completed last year, 3,613 wells discovered natural gas in commercial quantities, compared with 3,977 wells in 1954 and an average of 3,356 wells in the 1951-55 years. Furthermore, of the total wells completed last year, 12,271 or 21.6 per cent were wildcats, compared with 11,280 or 20.9 per cent in 1954 and an average of 11,095 wells or 24.2 per cent during the 1951-55 period. And of these wildcat wells, 353 or 2.9 per cent produced natural gas alone in 1955, compared with 399 or 3.5 per cent in 1954 and an average of 391 or 3.5 per cent for the past five years.

NOR is there much likelihood of any appreciable slowing down in the search for oil and gas in 1956. The *Oil and Gas Journal* estimates 58,062 wells will be drilled to completion this year, of

which 13,159 or 22.6 per cent will be wildcats. This prediction is on the way to being borne out, since the same source reports the completion of 8,850 wells during the first eight weeks of 1956, compared with 8,123 wells in the like 1954 period and 7,790 in 1953.

THE result of the 1955 drilling activities, along with extensions and revisions of earlier estimates, was to increase the estimated proved recoverable reserves of natural gas in the country by 11,986.7 billion cubic feet, or by 5.66 per cent, to reach an all-time high of 223,697.4 billion. This was the second-highest volume increase in reserves since authoritative estimates were started in 1946 and the third highest, per centagewise. However, although estimated proved recoverable reserves at the end of 1955 were 63,121.5 billion cubic feet, or 39.3 per cent, higher than at the close of 1946, net production rose from 4,942.6 billion cubic feet in 1946 to 10,118.1 billion in 1955, or by 104.9 per cent. As a result, the ratio of reserves at the end of the year to net production during the year dropped from 32.5 to 1 in 1946 to 22.1 to 1 last year. But the important point is that while a net 74,923.5 billion cubic feet of gas has been withdrawn in the 1946-55 decade, estimated reserves have continued to expand with the years, although at a lesser rate than production, and they should continue to increase.

NATURAL gas transmission lines are now being extended to all areas in the United States and underground storage capacity is being expanded to better serve areas now receiving natural gas. By

TABLE II

NATURAL GAS COMPANIES WITH RECORDS OF DIVIDEND PAYMENTS ON THEIR COMMON STOCKS OF THIRTY YEARS OR MORE

Company	*Years of Payment*	*Current Rate*	*March 28th Price*
The Providence Gas Co.—A	108	$0.56	10½
Washington Gas Light—N	104	2.00	39¼
Cincinnati Gas & Electric—N	103	1.20	28½
Consolidated Edison N. Y.—N	71	2.40	48¾
United Gas Improvement—N	71	2.00	36
Bridgeport Gas—A	58	1.50	27¼
Philadelphia Electric—N	54	1.80	39⅞
National Fuel Gas—N	54	1.00	20⅛
Central Hudson Gas & Elec.—N	53	0.80	16⅞
American Natural Gas	52	2.20	61¼
Public Service Electric & Gas—N	49	1.80	34⅜
Public Service of Colorado—N	49	1.80	44⅝
Pacific Lighting—N	47	2.00	39⅛
Iowa Power & Light—N	47	1.40	27
San Diego Gas & Electric—N	47	0.88	19¾
Baltimore Gas & Electric—N	46	1.60	35
New York State Elec. & Gas—N	46	2.00	39½
Consumers Power—N	43	2.20	50
Pacific Gas & Electric—N	37	2.40	53⅜
Delaware Power & Light—N	35	1.60	39⅞
Louisville Gas & Electric—N	31	2.00	58
Lone Star Gas—N	30	1.60	29¾

A—Listed on the American Stock Exchange.
N—Listed on the New York Stock Exchange.

the end of 1956, all sections of the country will be receiving natural gas, produced either in the United States or in Canada and Mexico. During 1955, the Federal Power Commission approved the construction of about 4,500 miles of new transmission pipelines, of which more than 3,000 miles were completed during the year and the balance were under construction. Likewise, more than 22,000 miles of natural gas distribution storage pipelines, not requiring FPC approval, were built during the year, bringing the total of natural gas gathering, transmission, distribution, and storage lines in the country to more than 445,000 miles at the year end. With 8,025,000 residential customers using natural gas for space heating at the close of 1955, the Gas Appliance Manufacturers Association estimates 1,000,000 new household gas-heating customers will be added during each of the next five years, at least.

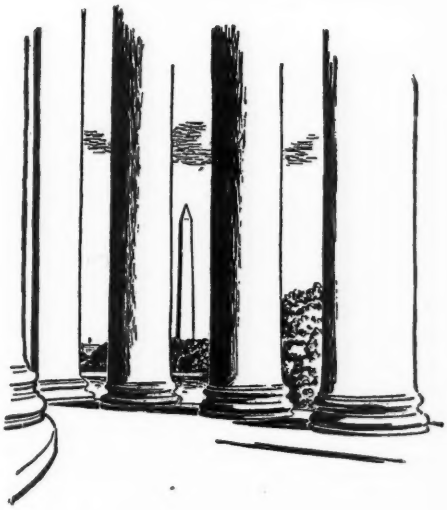
In addition, there were 184 underground reservoirs with an ultimate storage capacity of 1,859 billion cubic feet at the end of 1955 into which gas can be placed during low-consumption months for withdrawal during heating seasons, and an added $50,000,000 will be spent on these facilities in 1956, while the total outlay for underground storage facilities in the 1956-58 years is scheduled at $112,000,000.

More than 24,000,000 consumers were receiving natural gas at the close of 1955, a gain of 1,869,000 or 8.4 per cent over 1954. Total sales of natural gas last year were approximately 5,976.5 billion cubic feet, an increase of 466.5 billion or 8.4 per cent over the preceding year. Even if no further customers were added in the future, natural gas sales to residential and commercial customers will grow, since, like a taste for olives, demand for natural gas increases in the years following its introduction to new service areas. Revenues from sales of natural gas by utilities reached a new high of $3,473,300,000 in 1955, a gain of $421,300,000 or 13.8 per cent from the 1954 level.

At present, a total of 20 companies engaged in the production, transmission, and/or distribution of natural gas and with their common stocks listed upon the New York Stock Exchange, and two such companies with their common shares traded on the American Stock Exchange, have paid dividends on their junior shares for thirty or more years. Obviously, not all of them began their corporate existences as natural gas companies, since one of them started its dividend record in 1847, and some of them are of the "Johnny-come lately" variety. Yet, it is a record of which the natural gas industry can well be proud. These 22 companies are listed in Table II.

There is reason to believe that Congress will grant some relief to natural gas producers and gatherers through legislation removing the rate base formula in the regulation of their earnings—a form of regulation wholly inapplicable to the exploration for and production of this elusive mineral product. But even if relief goes no further, it does not mean that natural gas companies are to suffer from reduced earnings. It would be placing a low estimate on the ingenuity of the industry to assume it cannot overcome its present difficulty, just like it has surmounted so many obstacles in the past.

Washington and the Utilities



Indirect Legislation via Committee Report

THE public ownership bloc in Congress seems to be developing a fairly new technique of getting things done by legislation which contains no actual statutory reference to the objective intended. In plain words, it amounts to legislation by committee without the rank-and-file membership of Congress having a chance to shoot at or disagree with the ultimate goal, for the simple reason that there is nothing at all in the law about it.

The way the new technique works is simple enough. The committee first drafts a broad enough bill with general provisions covering certain public power developments desired. Then the committee writes a "report" which translates into specific language what the committee really intends. Then, when the law is passed, the committee report becomes *prima facie* evidence of the "intent of Congress," and therefore binding on the administrative agency which is supposed to carry out the law.

Such is the theory of the new technique. But there are two things which can upset the apple cart: (1) A committee in the other chamber of Congress may disagree —may even have diametrically opposite ideas to the point of writing a contradictory "report." (2) The administrative agency may also have ideas of its own about carrying out the "intent" of a single legislative committee in the absence of specific statutory language.

There have been three instances in recent weeks where the Public Works Subcommittee of the House Appropriations Committee—heavily loaded in favor of government power expansion—has tried to use this technique. First, in the case of TVA funds for commencing work on an additional generating unit at the John Sevier plant; second, in the case of appropriations for the Southwestern Power Administration, in connection with "lease-back" power lines and other facilities financed by REA loans to co-operatives; third, in the case of a similar effort which has been urged on the same House Public Works Committee in connection with a proposed "directive" to the Interior Department to negotiate a contract for the disposition of Clark Hill power to Georgia co-ops and municipalities.

ACTUALLY, the technique is not entirely new. Washington observers who were around during the war period can recall the time when a somewhat reverse situation (from the present policy setup as between the administration and the House committee) obtained, regarding the Secretary of Interior's use of department funds for line building. At that time it was the House committee report which attempted to forbid or restrict the use of federal funds for line building, and it was the Interior Department which was in favor of such use of the funds.

It may also be recalled that former Interior Under Secretary Fortas defended the administration's decision to go ahead with the building of the line, on the theory that where the committee of one branch of Congress makes a report on its "intent," and the committee of the other branch does not, the administrative agency is free to make its own construction of what the "intent" of Congress actually was. This background serves to emphasize the need for policy co-ordination between the congressional committees and the responsible administrative agency, if this legislation-by-committee-report technique is to be successful.

The Use of TVA Funds

THIS technique may not be very successful in the case of the attempt to permit TVA to use its own funds in building the John Sevier dam unit. The reason is that the Senate Appropriations Committee is opposed to the House committee's views. Furthermore, the Senate supported its committee by voting to override House action that would have allowed TVA to expand existing steam plants without congressional approval. A Senate-House conference committee considering the subject had, at this writing, been unable to break the deadlock.

The Senate Appropriations Committee, subsequently backed up by the full Senate, had put back into the Supplemental Appropriations Bill for fiscal 1956 a $3,500,000 appropriation for a start on a new generating unit at the John Sevier steam plant—an item which the House had knocked out. Thus, TVA would get a specific appropriation for plant expansion, which it wanted, but would lose the much more important blank-check authority which the House committee gave TVA—to use its own funds for unlimited expansion.

The Senate committee report said that "none of the power revenues of the TVA shall be used for the construction of new power-producing units, installations, or projects . . . unless and until approved by act of Congress." The Senate action knocked out what has been interpreted as an attempt of the House Appropriations Committee to declare (by means of a committee report) the "intent" of Congress with regard to TVA's use of its own funds.

IN the case of the SPA, Democrats on the House Appropriations Committee employed the same tactics in connection with the use of SPA's revolving funds to "lease back" power lines from REA co-ops. The only reference to SPA policies appeared in a committee report. As was the case with TVA appropriations, there would be no specific authorization language appearing in the bill itself for the opposition to shoot at, according to committee recommendations.

The object of the committee majority report on SPA would be to "instruct" the Interior Department to make use of SPA's continuing fund to negotiate new lease-option agreements with "super co-ops" (generating and transmission loans) for the construction of transmission lines from

federal installations to co-op load centers.

By using such procedures, Representative Cannon (Democrat, Missouri) and other Democrats on the House Appropriations Committee could bring pressure on Assistant Secretary of Interior Aandahl to modify, perhaps even end, his opposition to the use of the SPA revolving fund for such purposes. In so far as the committee would actually be stating what would pass for the "intent" of Congress on the question, this procedure might work, especially in reviving the Arkansas-Missouri line leases, which have been held up so far as the result of litigation. Stout opposition to this procedure is expected in the Senate Appropriations Committee, just as it occurred in connection with TVA funds.

THE House Public Works Appropriations Committee may use the same tactics with regard to Interior Department power-marketing policies at Clark Hill dam. It appears that Representative Cannon's committee has been asked to "include a directive" to the Department of Interior (in the committee report) to negotiate a contract (for disposition of Clark Hill power to Georgia co-ops and municipalities).

The request was made by the National Rural Electric Co-operative Association's staff engineer, Charles A. Robinson, Jr. He stated the NRECA's belief "that should Congress appropriate sufficient funds to build even a partial transmission system in Georgia, the Georgia Power Company would immediately become amenable to more equitable distribution of the benefits of Clark Hill power. We think that, in fact, no transmission would actually have to be constructed. Appropriate language in the report of this subcommittee directing that immediate action be taken to stop the loss of revenue at Clark Hill and contemplating federal transmission as the alternative to continued failure of private utility companies to market in accordance with established law, would get the job done."

The committee report is quite likely to follow this suggestion, unless the rebuff from the Senate on the TVA funds convinces these House members that the legislation-via-report approach is going to be fruitless.

The Senate Probe of Gas Bill

THE special Senate Lobbying Committee, headed by Senator McClellan (Democrat, Arkansas), has directed its staff to begin an immediate investigation of natural gas bill lobbying. McClellan said recently that the committee itself would move "with all speed possible" to get hearings under way. He indicated, however, that it is likely to be some time before actual committee inquiry can begin. The committee has not yet determined how it will conduct its investigation of both sides of the lobbying on the vetoed Harris-Fulbright Bill, nor has it decided what other lobbying groups will be examined. So far, it would appear that this committee will do its work without any accent on sensational developments.

The report of the Select Senate Committee on the lobbying episode brought to light by Senator Case (Republican, South Dakota) has further clouded the prospect for revising the Natural Gas Act with respect to gas producers. The controversial investigation may delay projected attempts to secure passage of a new bill, already tentatively scheduled for next year. The Select Committee report "severely censured" those who tried "to influence by political contribution" the vote of Senator Case on the vetoed Harris-Fulbright Bill. The 4-man committee, headed by

Senator George (Democrat, Georgia), found no specific legal infractions, but reprimanded representatives of a natural gas company for "incredibly poor judgment" and "galloping irresponsibility."

FPC Gas Items

AFTER next July 1st the FPC will not accept any filing of producer-pipeline contracts which contain condemned escalation clauses, according to a proposed rule announced by the commission. The type of escalation provisions condemned include automatic increases keyed to index figure rises, "favored nation" clauses, and the so-called spiral rate increase whereby interstate pipelines could automatically raise charges paid to producers whenever they are permitted an increase in their wholesale rates. The "favored nation" clause calls for an increase in the price paid by an interestate pipeline company to a producer if it or any other producer in the same field or other area of production receives higher prices from the same or another transporter, or if a bona fide offer to purchase gas has been made to it or any other producer within the area. Interested parties have until June 1st to submit views and comments on the proposed rule.

The U. S. circuit court of appeals for the District of Columbia has affirmed a decision of the FPC relieving Montana-Dakota Utilities Company (a pipeline) of any obligation to operate its gas transmission lines as a common carrier under the Mineral Lands Leasing Act of 1920. The court's opinion, by Judge Prettyman, agreed that a 1953 amendment to the Mineral Leasing Act—relieving natural gas pipelines regulated by the FPC from common carrier status—applied to Montana-Dakota Utilities Company. Mondakota Gas Company, which took the appeal, had contended that the amendment did not apply to pipelines subject to the Mineral Leasing Act prior to the date of the 1953 amendment. The court ruled against this contention.

THE FPC has rejected two gas producer rate increase proposals by J. M. Huber Corporation, of Borger, Texas, because of the recent U. S. Supreme Court ruling in the Mobile Gas Service Corporation decision on February 27th. The commission said it would investigate Huber's existing rates to determine if they are "unjust" or "unreasonable."

Huber had filed to increase by $189,100 annually its rates to the Panhandle Eastern Pipe Line Company, Kansas City, Missouri, and by $182,900 annually to Northern Natural Gas Company, of Omaha, Nebraska. The FPC had suspended both proposals pending court decision.

Oregon Co-op Votes to Sell Out

THE members of the Sandy Electric Co-operative of Sandy, Oregon, voted overwhelmingly (5 to 1) to sell their 1,500-mile system to Portland General Electric Company. The vote on April 26th came after an earlier election had failed (2 to 1) to approve the sale of the co-operative to another Oregon electric co-operative, Consumers Power, Inc., of Corvallis, Oregon. The Portland General Electric Company had made a bid slightly lower than the Corvallis co-operative. But the majority of Sandy membership were obviously impressed by the argument that operation by the business-managed utility company would result in better service at lower rates.

Wire and Wireless Communication

An AT&T Probe?

CHAIRMAN Celler (Democrat, New York) has promised a House Judiciary Committee investigation of the American Telephone and Telegraph Company's consent decree. Celler's statement came after a demand, voiced on the floor of the House of Representatives as well as earlier statements by Representative James Roosevelt (Democrat, California), which touched on four points: (1) the recent AT&T consent decree, concluded for the Justice Department by former Assistant Attorney General (now U. S. circuit court judge) Stanley Barnes; (2) the SAGE air defense communications contract between the Air Force and the AT&T (differences on this have been mostly settled by agreement); the effectiveness of FCC regulation of interstate telephone service; (4) the alleged "infiltration" of the Eisenhower administration by former Bell system officials and directors.

Chairman Dawson (Democrat, Illinois) of the House Government Operations Committee also announced he was looking into the AT&T consent decree. He said no decision would be made on whether to hold hearings until a staff study is completed.

A consent decree is a settlement agreed to by both the government and the concern being sued. The judgment is worked out by negotiation before trial between the defendant and the antitrust division, then filed with the court. This avoids lengthy trials, department officials say, but still is an effective means of enforcing the antitrust laws. The defendant is liable to further Justice Department action if he does not live up to the terms of the decree. Judge Barnes said the department used consent decrees as a method of antitrust enforcement more frequently in the past three years because defendants have been willing to meet the terms, with some compromise, set out by the government.

THE announcements by Messrs. Celler and Dawson followed the House floor speech by Representative Roosevelt, who called for a congressional investigation of what he termed "favored and special treatment" of AT&T by the government.

Representative Roosevelt is chairman of a House Small Business subcommittee which last March held hearings on the use of consent decrees in antitrust actions against big corporations. The subcommittee can hold hearings and make recommendations but has no power to write legislation. Mr. Roosevelt said in an interview that an AT&T study is the job of either the House Judiciary or Government Operations Committee, not the Small Busi-

ness unit. Mr. Roosevelt said Judge Barnes has testified that the original aim to separate AT&T and Western Electric was abandoned because of insufficient evidence.

Mr. Barnes, in his testimony before the subcommittee, declared the consent judgment has already shown signs of bringing about an increase in competition in the electronics field. He also declared the government used the consent decree because it decided it could not win a court test on its original demand that AT&T and Western Electric be separated. He testified the decree was a good one and will help the Justice Department in a pending patent case against Radio Corporation of America.

Representative Roosevelt also condemned the part played by Attorney General Brownell in approving the consent decree. He stated on this:

> In this connection an attorney in the antitrust division of the Department of Justice, familiar with the case, recently stated that Mr. Brownell, himself, established the policy that a consent decree was to be negotiated with AT&T and Western Electric without separating the two. Instructions to this effect were made known by Mr. Brownell's office to the members of the antitrust division. This official has stated that the antitrust division was put into a strait jacket in negotiating the decree by virtue of these instructions.

DURING testimony before Roosevelt's Subcommittee on Small Business, the California Representative had indicated that complaints had been made by independent manufacturers about reduced business opportunities as a result of Western Electric operations. But Judge Barnes, who was giving testimony at the time, said he was not aware of widespread complaint along this line. On the contrary, he believed that opportunities for small business and independent telephone company manufacturers and operating companies would be increased as a result of restrictions placed upon Western Electric operations by the consent decree.

Volume Line Rate Case Expanded

THE FCC will have to broaden its case of investigating proposed "volume rate" private line tariffs. The reason is that the Department of Defense has asked permission to intervene in the commission's general investigation of the private line services furnished by the telephone companies. The FCC hearings will probably not commence until fall, but they will embrace private line service tariffs (other than television and sound broadcasting) of all Bell system companies as well as Western Union.

These include such services as private line telephone, teletypewriter, telephotographing, and remote telemetering and miscellaneous signaling. In its petition for intervention, the Defense Department said that it proposed to expand its leased services in connection with its SAGE project of air defense communications, and was greatly concerned with any proposals for reduced rates for multiple private line services.

The AT&T Meeting

THE American Telephone and Telegraph Company this year will become the first company in history to spend $2 billion on construction in twelve months. Cleo F. Craig, president, told a record attendance of 3,000 stockholders at the annual meeting in New York on April 18th that the actual outlay would be $2.1 bil-

lion. This would compare with the previous all-industry high of $1,643,000,000 set last year by AT&T.

Only two other concerns—the Standard Oil Company (New Jersey) and General Motors Corporation — have ever earmarked more than $1 billion for a 12-month expansion program. Both will top that figure this year for the first time, with Jersey Standard planning to spend $1.2 billion for world-wide expansion, improvements, and searching for oil, and GM budgeting $1 billion, exclusive of tooling and redesign costs.

The AT&T budget figures out to a daily outlay of about $6,000,000, or a bit more than $7,750,000 for each working day. Mr. Craig said the huge expenditure was necessary to keep up with an ever-expanding demand for telephone service. The Bell system, covering AT&T's principal telephone subsidiaries, now serve about 47,000,000 telephones, or more than 80 per cent of those in use in the nation. He stated:

> So far this year new orders are considerably ahead of 1955 and we expect this will also be true for the year as a whole. Barring unforeseen developments, when the share owners meet in 1957 we should be celebrating 50,000,000 telephones in service.

The Bell system added 2,850,000 telephones last year, nearly 50 per cent more than in 1954.

"LONG-DISTANCE business also continues to show a good healthy growth," Mr. Craig said. He predicted that as direct long-distance dialing by customers spreads, the number of toll calls would go up even more. Long-distance calls in the first quarter ran 11 per cent ahead of those in the like 1955 period.

Mr. Craig reported that San Diego, California, last month became the first big city in which "all customers can dial their own calls to millions of other telephones in metropolitan areas from coast to coast." Hartford, Connecticut, is scheduled to obtain this service in June.

A proposal that a 4-for-1 stock split be put to holders at the 1957 annual meeting was ruled out of order because it had not been submitted early enough. Mr. Craig said that after continuing studies of other stock splits, it had been decided that it was not in the best interests of the company to split. "AT&T directors will not split the stock to push the price on the market up or down for the benefit of speculators," he added.

Highway Relocation Ahead

THE telephone industry, as well as other utilities, were somewhat encouraged in their efforts to protect consumer interests from the burden of the expense of relocating facilities due to highway construction with federal-aid funds. On April 27th, the House of Representatives passed the $51.5 billion highway bill with a modified utility relocation section which permits the use of federal funds for utility relocation where such payment does not violate state laws or contracts requiring utilities to pay for their own utility relocation.

As the bill passed the Senate last year, federal funds were authorized for relocation expenditures up to 50 per cent. Because of other differences the Senate is expected to re-examine the bill, but eventual passage seemed assured by the House action.

Financial News and Comment

By OWEN ELY

Accelerated Depreciation

THE provisions for accelerated depreciation in the 1954 Tax Code have been discussed in this department from time to time. While regulatory decisions of the state commissions have followed much the same lines as those with reference to accelerated amortization, several important states (including New York) have not yet given their decisions, and the important Columbia Gas Case is still pending before the Federal Power Commission. Moreover, the Treasury Department itself has not yet issued its final regulations implementing this section of the Tax Code, although the issues have been sufficiently clarified so that the companies could elect to take a position on some of the major considerations.

The state commissions which have issued accounting orders to date seem to favor the normalizing of income by setting up either a tax reserve or a "restricted" or "appropriated" surplus item in the balance sheet. The Indiana order specifically mentioned the intent of Congress, that the end result to be achieved is the same as for accelerated amortization. On the other hand, some commissions, such as those in Pennsylvania and Oklahoma, ruled that for rate-making purposes only *actual* taxes should be used—thus, in effect, giving the benefit of the tax saving to the consumer rather than the security holder. The attitude of other commissions on this point will be of special interest. It may be recalled that sometime ago the Wisconsin commission wished to give the consumer the tax benefit of accelerated amortization. This same commission has taken the position that reduction in federal income taxes resulting from accelerated depreciation should be included as additional depreciation and that the customer would receive the benefit thereof through reduction in the rate base.

THE policy with respect to reporting tax savings from accelerated *amortization,* to stockholders and the public, has

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now been pretty well ironed out. Initially, some companies reported earnings available for common stock "before and after" tax saving, and one or two showed share earnings to include the tax savings. However, these practices soon died out and so far as the writer is aware all the utilities now set up a special item of "deferred taxes," thus canceling out the tax saving.

ACCELERATED *depreciation* differs from accelerated amortization in that it is a more "permanent" innovation, especially with new units of property being constantly added. Some utilities anticipate that annual additions to the utility plant account (for new capacity and replacements accounted for as capital additions) will proceed on a fairly substantial level, and that rapid depreciation will result in tax reductions since depreciation calculated on the accelerated bases permitted under § 167 of the Internal Revenue Code will never be less than straight-line depreciation booked in the accounts. These utilities have taken the position that the intent of Congress is fully served when such tax reductions are permitted to flow directly to the income account to constitute a portion of retained earnings reinvested in new plant. In other utility companies where it is anticipated that tax depreciation in future years will be less than straight-line book depreciation, the tax reductions resulting from accelerated depreciation are being normalized in the same manner as for accelerated amortization. Of course, these judgments may be made only within the scope of accounting prescribed by regulatory authorities. It is hoped, therefore, that utility companies will be explicit in indicating whether tax deferral items normalized in the income account cover accelerated amortization, accelerated depreciation, or both.

Some excerpts from statements made at the time the Tax Code was passed shed some light as to the intent of the Congress and others with respect to the liberal depreciation provisions. President Eisenhower's Budget Message stated, for example, that "liberalization of the tax treatment of depreciation would have far-reaching effects on all business. . . . Larger depreciation charges should be allowed in the early years of life of property. . . . Faster depreciation . . . will merely shift the tax deductions from later to earlier years. It will not increase total deductions. The change should in fact increase government revenues over the years . . ."

IN his Economic Report to Congress the President stated:

> Depreciation allowances should be liberalized. . . . An investor usually has a clearer and more certain view of the profits from an investment a few years ahead than of returns in the distant future. If he is permitted to charge off a substantial part of the cost of an investment against foreseeable net income and thus recover a good part of his capital quickly, he will be more disposed to invest. . . . Recent experience with accelerated amortization of defense plant facilities suggests that the rapid depreciation allowances provide strong inducement to investment.

In presenting the bill on the floor of the House, former Chairman Reed of the Ways and Means Committee stated:

> This provision of the bill is anticipated to have far-reaching economic effects. Incentives resulting from the changes are vital in order to help create thousands of new jobs each year and to maintain the present high level of investment in plant and equipment. . . . It will be of particular assistance to growing businesses in financing their expansion.

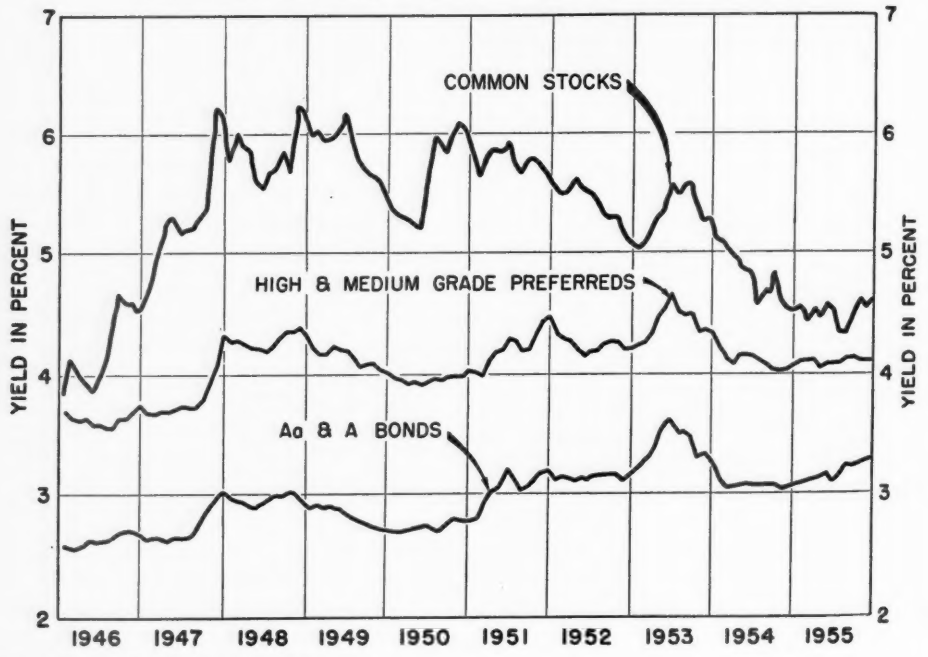
SENATOR Millikin, presenting the bill on the floor of the Senate, said that "Tax rates are high . . . too little is left after taxes to draw out the maximum in economic effort and initiative." The proposed new treatment of depreciation, he felt, would contribute "to a reduction in existing tax barriers to economic growth."

Secretary of the Treasury Humphrey, at Senate hearings, emphasized that the purpose of the provision was "to stimulate employment, plant expansion, and modernization," while "the total deduction over the life of property will not be increased." He also stated that other countries, such as Canada, Great Britain, Sweden, and Germany, have made even more generous treatment of depreciation allowances than provided in the bill. The then Under Secretary Folsom said that "The big advantage of it is that it would stimulate people to scrap old machines and buy new machines because you can get your money back in tax reductions quicker than you can under the other method."

These quotations indicate very clearly that the administration's purpose in sponsoring the new depreciation rules agree with the earlier policy in favoring accelerated amortization, except that the latter was limited in application and duration.

TREND OF YIELDS ON PUBLIC UTILITY BONDS AND PREFERRED STOCKS AND ELECTRIC OPERATING COMPANY COMMON STOCKS

MONTHLY 1946 – 1955 INCLUSIVE BASED ON MOODY'S END-OF-MONTH AVERAGES



Source, Ebasco Services Incorporated

It will be interesting to follow the thinking and action of both regulatory authorities and utilities relative to resolving the issues presently under consideration. The determinations thus made could have material effect on both customer and investor interests. A further study of utility practice, based on 1955 reports, will appear in a later issue.

ONE of the best recent discussions of accounting and regulatory implications and problems in connection with accelerated depreciation was the address, "Regulation Is a Living Thing," by Commissioner H. Lester Hooker of the Virginia State Corporation Commission, at the National Conference of Electric and Gas Utility Accountants in New York city April 16-18, 1956. He presented some interesting estimates as follows:

> According to statistics the electric utility industry, during the last five years or so, has added on the average about $2 billion of net plant each year. Under the straight-line method, the depreciation on annual additions of $2 billion for five years, at an average rate of 2.2 per cent, would aggregate about $660,000,000. Under the "sum-of-digits" method (one of the methods permitted under the new law) the charge would be approximately $1,265,000,000. The so-called tax savings at 52 per cent on the difference of $605,000,000 would be approximately $315,000,000. Under the "declining-balance" method the so-called tax savings would be somewhat less. These savings would be available to the utility for construction purposes or other legitimate purposes (except perhaps for payment of dividends) under the deferment plan. This would mean that the need for additional common stock financing would be reduced by the amount of the accumulated tax deferrals.

Utility Common Stocks Affected (On Short-term Basis) by Rising Money Rates

THE chart on page 682, "Trend of Yields," etc., serves to illustrate the dual set of factors which affect utility common stocks. Over the longer term they are influenced by the trend of industrial stocks, the increasing bull-market popularity of "growth" stocks of all kinds, etc. In the chart this is reflected in the declining trend of common stock yields in recent years. But on the shorter swings, stock yields are also frequently affected by temporary changes in money rates and bond yields. The latter effects are also reflected in the chart, in the similarity of the moves in bonds and equities in the latter part of 1947, and again in late 1948, but more emphatically in the first half of 1953, where the market moves in bonds, preferred stocks, and common stocks were amazingly similar.

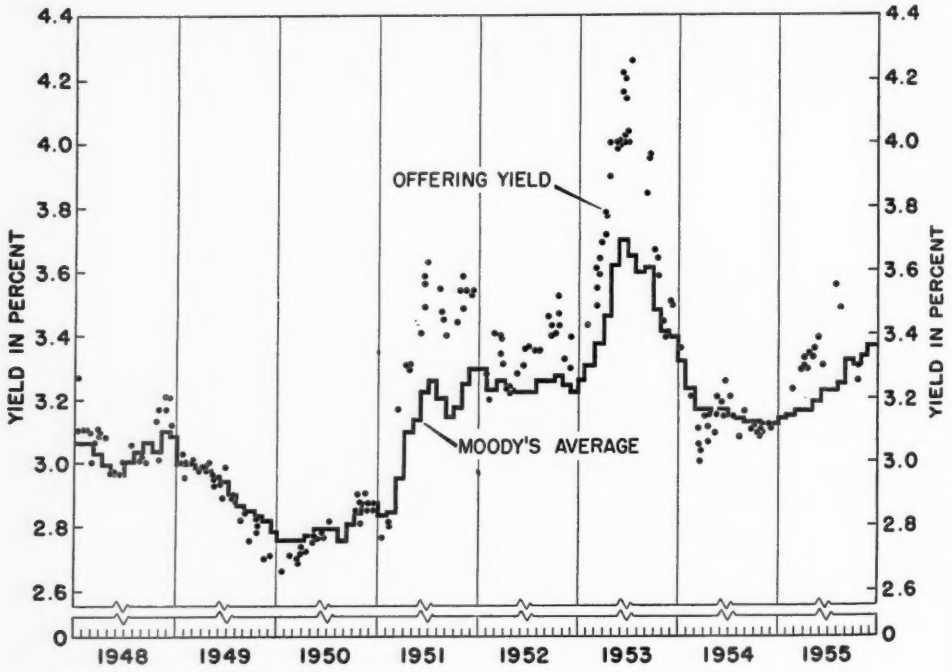
While the chart has not been extended to 1956, history seems to be repeating itself currently. Utility stocks as measured by the Dow average have lost nearly half of their January-March advance—a much larger proportion than industrials. (Rails have been making new highs.) The Moody average of 24 electric power common stocks dropped from 52.21 on March 16th to 50.60 on April 20th; with the average dividend increasing from $2.28 to $2.32, the yield rose from 4.45 per cent to 4.58 per cent.

Around April 19th it was theoretically possible to buy medium-grade utility preferred stocks to obtain an average of 4.37 per cent, while Moody's average yield for 24 electric power common stocks was 4.58 per cent, making a spread of only 21 basis

points; and as indicated elsewhere in this department, new issues of preferred stock might further narrow the spread, perhaps to zero. A year ago, medium-grade preferred stocks yielded 4.21 per cent and Moody's common stocks 4.43 per cent, or a spread of 22 decimal points—indicating how consistently the two groups have moved in this instance. The preferred stock market in turn follows the bond market, but not quite so closely—the spread between yields on medium-grade preferred and Baa bonds was 74 basis points recently compared with 81 a year earlier.

Chartwise, the present "jiggle" in bond yields is not very significant thus far, and with the current gradual decline in commercial loans from the tax-period high level, conditions may not get much worse in the corporate bond market if some of the larger offerings are deferred. The municipal market has been "taking it on the chin" with a gain of 32 basis points in the average yield since February (but a net loss of only 15 basis points since the end of 1955). The average Aaa corporate yield dropped from 3.16 per cent to 3.08 per cent in January-February, but later advanced to 3.29 per cent, a gain of 21 basis points in recent weeks but a net gain of only 13 basis points from January.

YIELDS ON PUBLIC OFFERINGS OF ELECTRIC UTILITY MORTGAGE BONDS RATED 'A' COMPARED WITH MOODY'S PUBLIC UTILITY 'A' BOND AVERAGE



Source, Ebasco Services Incorporated

Rising Money Rates Penalize Current Borrowers

THE Ebasco chart on page 684 compares yields on new public offerings of A-rated bonds for 1948-55 with the prevailing average yields for similar bonds already outstanding. This shows very clearly that those utilities which are forced to come to market just after a sharp rise in yields (*i.e.*, a sharp drop in the bond market) usually pay a severe penalty. This is particularly true if a large number of new issues are "bunched," as happened around April-June, 1953. As pointed out by the Irving Trust Company, it is a particularly bad policy for a number of utilities to try to float new issues almost simultaneously. This results in a heavy competition for funds at a bad seasonal time—still worse after a sharp rise in money rates.

In 1953 utilities which were able to postpone their financing a few months were able to save as much as 80 basis points. Currently, therefore, it would seem worth while for utilities which can temporarily rely on bank loans to postpone their offerings during a period of watchful waiting, particularly in view of heavy pending financing for which institutions may be earmarking funds—the $250,000,000 AT&T debentures and the $300,000,000 General Electric financing. On April 18th, Southern California Edison's $40,000,000 first and refunding 3⅝'s of 1981 were retailed at 99.106, or about a 3.68 per cent basis—as compared with an average of 3.34 per cent for the Aa group (Moody index). A week later the $30,000,000 Wisconsin Electric Power issue (also Aa rated) was offered on a 3.815 per cent basis. Thus, in one case the company had to pay 34 basis points above the average yield and in the other case nearly 48. Long Island Lighting on April 23rd wisely decided to postpone its proposed issue of preferred stock.

Alabama Gas May Not Sell Plants to Municipalities

OVER the past two years reports have been circulated to the effect that gas distribution systems of Alabama Gas Corporation might be sold to public bodies at prices substantially in excess of book value. Certain investment bankers have been reported to have obtained contracts with officials of a few municipalities authorizing them to negotiate with the company for

CURRENT YIELD YARDSTICKS

	1956	*1955-56 Range*		*1954 Range*		*1953 Range*	
	*April 18th**	*High*	*Low*	*High*	*Low*	*High*	*Low*
U. S. Long-term Bonds—Taxable ..	3.08%	3.08%	2.62%	2.70%	2.41%	3.15%	2.70%
Utility Bonds—Aaa	3.29	3.29	2.93	3.13	2.86	3.43	3.01
Aa	3.34	3.34	2.99	3.19	2.92	3.59	3.07
A	3.42	3.42	3.12	3.37	3.11	3.72	3.23
Baa	3.63	3.63	3.37	3.72	3.37	3.94	3.50
Utility Preferred Stocks—							
—High-grade	4.06	4.06	3.89	4.09	3.85	4.45	4.01
—Medium-grade	4.37	4.37	4.19	4.51	4.17	4.87	4.43
24 Electric Utility Common Stocks ..	4.58	4.65	4.32	5.23	4.50	5.72	5.01
30 Gas Utility Common Stocks	4.76	4.76	4.29	5.22	4.64	5.66	4.74

*Approximate date.
Latest available Moody indices are used for utility bonds and stocks; Standard & Poor's index for government bonds.

the purchase of its properties in the municipalities. Such proposed sales would have involved numerous technical, financial, tax, and legal problems.

This trend toward public ownership of gas properties has been watched with some concern by the industry. It is our understanding, however, that recently members of the board of Alabama Gas, who have been opposed to this move, have gained the upper hand, and that consideration of such sales may be indefinitely postponed.

A Decade of Electric Utility Financing Summarized

EBASCO SERVICES INCORPORATED has recently issued, as part of its financing service, a summary of the postwar decade of electric utility financing. A brief summary may be of interest, as follows:

Investor-owned electric utilities spent over $20 billion on plant, of which about one-third was raised internally and two-thirds by sale of securities. Generating capacity was increased from 40,000,000 kilowatts to 87,000,000 kilowatts. (Some of the money went to build new gas and miscellaneous plant, since some so-called electric utilities also have these services.) The electric utilities also did about $3.4 billion refunding, and about $.7 billion securities were sold under holding company divestment proceedings—making a total of $17.5 billion security offerings or an average of about $1.75 billion a year. (It should be kept in mind that all these figures apply only to the electric division of the industry.)

Of the sales of new-money issues, about 58 per cent were in mortgage bonds and 8 per cent in debentures and notes, while preferred stocks accounted for 13 per cent and common stocks 21 per cent. Of course retained earnings added to the common stock equity, maintaining it around the 35 per cent level (weighted industry average).

The raising of new capital on a large scale began in 1948. During the decade over half a billion of convertible debentures and convertible preferred stocks were issued.

DATA ON ELECTRIC UTILITY STOCKS

Rev. (Mill.)			4/18/56 Price About	Div. Rate	Current Yield	Share Earnings* Cur. Period	Share Earnings* % Increase	Share Earnings* 12 Mos. Ended	Price-Earns. Ratio	Dividend Pay-out	Common Stock Equity
$258	S	American Gas & Elec.	55	$2.00c	3.6%	$3.00**	15%	Feb.	18.3	67%	34%
39	O	Arizona Pub. Serv.	24	1.00	4.2	1.34	1	Feb.	17.9	75	31
9	O	Arkansas-Mo. Power	23	1.24	5.4	1.65	5	Sept.	13.9	75	30
27	S	Atlantic City Elec.	30	1.20	4.0	1.55	10	Jan.	19.3	77	27
118	S	Baltimore G. & E.	34	1.60	4.7	2.02	17	Dec.	16.8	79	41
6	O	Bangor Hydro-Elec.	34	1.80	5.3	2.20	D10	Dec.	15.4	82	31
5	O	Black Hills P. & L.	28	1.28	4.6	2.15	8	Jan.	13.0	59	27
91	S	Boston Edison	56	2.80	5.0	3.40	9	Dec.	16.5	83	53
19	A	Calif. Elec. Power	14½	.70	4.8	.91	36	Dec.	15.9	77	35
17	O	Calif. Ore. Power	33	1.60	4.8	2.08	17	Nov.	15.9	77	37
7	O	Calif. Pacific Util.	29	1.50	5.2	2.20**	2	Dec.	13.2	68	29
58	S	Carolina P. & L.	25	1.10	4.4	1.65	15	Feb.	15.1	67	37
26	S	Cent. Hudson G. & E.	17	.80	4.7	1.00	5	Dec.	17.0	80	33
19	O	Cent. Ill. E. & G.	27	1.40	5.2	2.07	38	Dec.	13.0	68	30
33	S	Cent. Ill. Light	54	2.60	4.8	3.90	30	Jan.	13.8	67	41
46	S	Cent. Ill. P. S.	31	1.60	5.2	2.40	25	Dec.	12.9	67	33
11	O	Cent. Louisiana Elec.	34	1.40	4.1	1.83	24	Dec.	18.6	77	31
33	O	Cent. Maine Power	24	1.40	5.8	1.77	10	Jan.	13.6	79	33
114	S	Cent. & South West	37	1.40	3.8	2.04	9	Dec.	18.1	69	36
11	O	Cent. Vt. P. S.	18	1.00	5.6	1.24	D6	Feb.	14.5	81	28
108	S	Cincinnati G. & E.	27	1.20	4.4	1.90	10	Dec.	14.2	63	39
6	O	Citizens Util.	16	.48a	6.0a	1.08	6	June	14.8	44	40

Rev. (Mil.)		(Continued)	4/18/56 Price About	Div. Rate	Current Yield	Share Earnings* Cur. Period	% Increase	12 Mos. Ended	Price-Earns. Ratio	Dividend Pay-out	Common Stock Equity
104	S	Cleve. Elec. Illum.	39	1.60	4.1	2.49	30	Dec.	15.7	64	47
4	O	Colo. Cent. Power	29	1.20	4.1	1.62	1	Dec.	17.9	74	24
45	S	Columbus & S. O. E.	34	1.60	4.7	2.18	34	Dec.	15.6	73	37
336	S	Commonwealth Edison	42	2.00	4.8	2.62	4	Dec.	16.0	76	47
10	A	Community Pub. Serv.	24	1.20	5.0	1.79	6	Dec.	13.4	67	51
2	O	Concord Electric	44	2.40	5.5	2.71	3	Dec.	16.2	89	61
65	O	Connecticut L. & P.	18	.98	5.4	1.15	2	Feb.	15.6	85	33
21	O	Connecticut Power	43	2.25	5.2	2.81	22	Dec.	15.3	80	42
494	S	Consol. Edison	47	2.40	5.1	3.12	4	Dec.	15.1	77	41
189	S	Consumers Power	49	2.20e	4.5	3.15	11	Jan.	15.6	70	41
61	S	Dayton P. & L.	46	2.20	4.8	3.24	12	Sept.	14.2	68	37
34	S	Delaware P. & L.	39	1.60	4.1	2.32	11	Dec.	16.8	69	32
220	S	Detroit Edison	34	1.80	5.3	2.29	15	Feb.	14.8	79	42
120	A	Duke Power	31	1.20	3.9	1.80	14	Dec.	17.2	67	54
89	S	Duquesne Light	35	1.80	5.1	2.34	9	Dec.	15.0	77	36
27	O	Eastern Util. Assoc.	36	2.20	6.1	2.62	13	Feb.	13.7	84	36
2	O	Edison Sault Elec.	16	.80	5.0	1.18	22	Sept.	13.6	68	49
10	O	El Paso Elec.	39	1.80	4.6	2.43	—	Dec.	16.0	74	37
11	S	Empire Dist. Elec.	30	1.60	5.3	2.17	8	Dec.	13.8	74	30
4	O	Fitchburg G. & E.	54	3.00	5.6	3.52	8	Dec.	15.3	85	55
43	S	Florida Power Corp.	49	1.60	3.3	2.30	15	Dec.	21.3	70	33
93	S	Florida P. & L.	42	1.20	2.9	2.05	29	Dec.	20.5	59	40
163	S	Gen. Pub. Util.	37	1.80	4.9	2.71	12	Dec.	13.7	66	39
6	O	Green Mt. Power	33	1.80	5.5	2.50	8	Feb.	13.2	72	37
51	S	Gulf States Util.	39	1.60	4.1	2.15	14	Jan.	18.1	74	31
21	A	Hartford E. L.	59	2.75	4.7	3.44	9	Dec.	17.2	80	47
5	O	Haverhill Elec.	40	2.35	5.9	2.62	34	Dec.	15.3	82	100
66	S	Houston L. & P.	50	1.40	2.8	2.55	16	Jan.	19.6	55	42
8	O	Housatonic P. S.	23	1.40	6.1	1.41	19	Dec.	16.3	99	54
25	S	Idaho Power	33	1.20	3.6	1.87	4	Dec.	17.6	64	35
78	S	Illinois Power	52	2.60	5.0	3.58	17	Feb.	14.5	73	35
40	S	Indianapolis P. & L.	28	1.40	5.0	1.88	25	Dec.	14.9	74	38
19	S	Interstate Power	14	.74	5.3	1.00	4	Dec.	14.0	74	31
30	O	Iowa Elec. L. & P.	28	1.30	4.6	2.11	18	Jan.	13.3	62	31
31	S	Iowa-Ill. G. & E.	33	1.80	5.5	2.39	15	Jan.	13.4	75	40
35	S	Iowa Power & Lt.	27	1.40	5.2	1.99	9	Dec.	13.6	70	35
30	O	Iowa Pub. Service	16	.80	5.0	1.06	10	Feb.	15.1	75	33
13	O	Iowa Southern Util.	23	1.20	5.2	1.67	8	Jan.	13.8	72	36
56	S	Kansas City P. & L.	40	2.00	5.0	2.61	23	Feb.	15.3	77	35
27	S	Kansas G. & E.	27	1.20	4.4	1.96	D2	Jan.	13.8	61	26
40	S	Kansas Pr. & Lt.	23	1.20	5.2	1.73	11	Dec.	13.3	69	27
37	O	Kentucky Util.	27	1.28	4.7	2.05	7	Dec.	13.2	62	35
7	O	Lake Superior D. P.	22	1.10	5.0	1.53	7	Dec.	14.4	72	38
6	O	Lawrence Elec.	30	1.75	5.8	1.87	34	Dec.	16.0	94	62
17	S	Long Island Ltg.	22	1.10	5.0	1.53	NC	Feb.	15.3	76	34
41	S	Louisville G. & E.	58	2.00	3.4	3.59	7	Dec.	16.2	56	35
7	O	Lowell Elec. Lt.	57	3.35	5.8	3.04	D19	Dec. '54	18.8	109	65
9	O	Lynn G. & E.	29	1.60	5.5	2.03	1	Dec.	14.3	79	76
8	O	Madison G. & E.	45	1.60	3.6	3.46	8	Dec.	13.0	46	47
4	A	Maine Pub. Service	18	1.08	6.0	1.16	D14	Jan.	15.5	93	31
5	O	Michigan G. & E.	45	1.50b	6.3g	3.66	20	Dec.	12.3	41	35
144	S	Middle South Util.	29	1.50	5.2	2.23	5	Jan.	13.0	67	35
26	S	Minnesota P. & L.	29	1.40	4.8	2.13	24	Feb.	13.6	66	34
2	O	Miss. Valley P. S.	30	1.40	4.7	2.48	2	Mar.	12.1	56	31
10	A	Missouri Pub. Ser.	13	.60	4.6	.91	1	Dec.	14.3	66	29
5	O	Missouri Util.	25	1.36	5.4	1.79	—	Dec.	14.0	76	36
37	S	Montana Power	43	1.80	4.2	3.03	17	Jan.	14.2	60	36
130	S	New England Elec.	17	1.00	5.9	1.24	7	Dec.	13.7	81	33
40	O	New England G. & E.	18	1.00	5.6	1.38**	2	Dec.	13.0	72	40
43	O	New Orleans P. S.	47	2.25	4.8	2.61	D2	Feb.	18.0	86	39
2	O	Newport Elec.	22	1.00	4.5	1.40	16	Jan.	15.7	71	34
77	S	N. Y. State Elec. & Gas	38	2.00	5.3	2.81	19	Feb.	13.5	71	38
210	S	Niagara Mohawk Pr.	33	1.80	5.5	2.22	—	Dec.	14.9	81	34
75	O	Northern Ind. P. S.	37	1.80	4.9	2.73	14	Dec.	13.6	66	33
118	S	Northern Sts. Power	17	.90	5.3	1.16	8	Dec.	14.7	78	33
9	O	Northwestern P. S.	17	1.00	5.9	1.40	12	Dec.	12.1	71	25

Rev. (Mil.)		(Continued)	4/18/56 Price About	Div. Rate	Cur. rent Yield	Share Earnings* Cur. Period	% In- crease	12 Mos. Ended	Price-Earns. Ratio	Divi- dend Pay-out	Common Stock Equity
123	S	Ohio Edison	52	2.48	4.8	3.58	19	Jan.	14.5	69	38
40	S	Oklahoma G. & E.	37	1.70	4.6	2.39	16	Feb.	15.5	71	30
15	O	Otter Tail Power	28	1.60	5.7	2.19	15	Dec.	12.8	73	34
443	S	Pacific G. & E.	52	2.40	4.6	3.32	15	Dec.	15.7	72	33
40	O	Pacific P. & L.	30	1.48	4.9	1.77	20	Nov.	16.9	84	29
123	S	Penn Power & Lt.	46	2.40	5.2	3.10	6	Dec.	14.8	77	29
210	S	Philadelphia Elec.	40	1.80	4.5	2.39	10	Dec.	16.7	75	40
29	O	Portland Gen. Elec.	25	1.10	4.4	1.69	14	Jan.	14.8	65	40
58	S	Potomac Elec. Pr.	22	1.10	5.0	1.43	34	Dec.	15.4	77	40
77	S	Pub. Serv. of Colo.	45	1.80	4.0	2.70	29	Dec.	16.7	67	38
273	S	Pub. Serv. El. & Gas	34	1.80	5.3	2.26	16	Dec.	15.0	80	37
67	S	Pub. Serv. of Indiana	38	2.00	5.2	2.35	D2	Jan.	16.2	85	33
26	O	Pub. Serv. of N. H.	18	1.00	5.6	1.24	10	Mar.	14.5	81	36
11	O	Public Serv. of N. M.	14	.68	4.9	.98	8	Dec.	14.3	69	33
23	S	Puget Sound P. & L.	27	1.28	4.7	1.51	10	Dec.	17.9	85	56
52	S	Rochester G. & E.	46	2.24	4.9	2.97	6	Dec.	15.5	75	36
17	O	Rockland L. & P.	19	.70	3.7	.97	20	Dec.	19.6	72	29
8	S	St. Joseph L. & P.	24	1.40	5.8	1.69	2	Dec.	14.2	78	40
45	S	San Diego G. & E.	22	.88	4.0	1.32	24	Feb.	16.7	67	40
8	O	Savannah E. P.	36	1.68	4.7	2.24	15	Nov.	16.1	75	36
8	O	Sierra Pacific Pr.	24	1.20	5.0	1.45	13	Feb.	16.6	83	28
154	S	So. Calif. Edison	51	2.40	4.7	3.27	10	Dec.	15.6	73	36
38	S	So. Carolina E. & G.	20	1.00	5.0	1.35	8	Dec.	14.8	74	29
6	O	Southern Colo. Pr.	17	.70	4.1	1.25	4	Dec.	13.6	56	37
210	S	Southern Company	22	1.00	4.5	1.35	15	Jan.	16.3	74	32
16	S	So. Indiana G. & E.	33	1.60	4.8	2.22	D2	Jan.	14.9	72	33
4	O	So. Nevada Power	19	1.00	5.3	1.46	D2	Sept.	13.0	68	64
1	O	Southern Utah Pr.	17	1.00	5.9	.96	8	Dec.	17.7	104	38
3	O	Southwestern E. S.	20	1.08	5.4	1.64	2	Feb.	12.2	66	31
33	S	Southwestern P. S.	26	1.32	5.1	1.51	D3	Feb.	17.2	87	30
21	A	Tampa Elec.	27	1.00	3.7	1.41	8	Feb.	19.1	71	42
127	S	Texas Utilities	39	1.28	3.3	2.06	7	Dec.	18.9	62	38
35	S	Toledo Edison	14½	.70	4.8	1.10	20	Dec.	13.2	64	30
12	O	Tucson G. E. L. & P.	31	1.20	3.9	1.70	4	Dec.	18.2	71	33
119	S	Union Elec. of Mo.	28	1.40	5.0	1.70	3	Dec.	16.5	82	37
30	O	United Illuminating	51	2.60	5.0	3.22	3	Dec.	15.8	81	51
5	O	Upper Peninsula Pr.	29	1.60	5.5	2.17	D9	Dec.	13.4	74	36
38	S	Utah Power & Lt.	51	2.20	4.3	3.20	19	Feb.	15.9	69	42
106	S	Virginia E. & P.	44	1.60	3.6	2.62	13	Feb.	16.8	61	34
24	S	Wash. Water Power	37	1.80	4.9	2.16	12	Mar.	17.1	83	45
127	S	West Penn Elec.	28	1.40	5.0	2.07	9	Feb.	13.5	68	29
64	O	West Penn Power	52	2.40	4.6	3.22	11	Sept.	16.1	75	33
11	O	Western Lt. & Tel.	33	1.80	5.5	2.70	32	Dec.	12.2	67	31
24	O	Western Mass. Cos.	42	2.20	5.2	3.09	5	Dec.	13.6	71	52
95	S	Wisc. El. Pr. (Cons.)	33	1.60	4.8	2.36	2	Dec.	14.0	68	39
37	O	Wisconsin P. & L.	26	1.28	4.9	1.72	13	Dec.	15.1	74	35
34	S	Wisconsin Pub. Serv.	24	1.20	5.0	1.74	15	Dec.	13.8	69	35
		Averages			4.9%				15.3	73%	
		Foreign Companies									
186	S	American & Foreign Pr.	16	$ .80	5.0%	$1.72	D28%	Sept.	9.3	47%	48%
137	A	Brazilian Trac. L. & P.	7	.50	7.1	1.26	D6	Dec. '54	5.6	40	70
63	A	British Columbia Pr.	40	1.20	3.0	2.05	37	Dec.	19.5	59	27
16	A	Gatineau Power	30	1.20	4.0	2.06	5	Dec.	14.6	58	30
11	A	Quebec Power	30	1.20	4.0	1.73	11	Dec.	17.3	69	48
45	A	Shawinigan Water & Pr.	77	1.80	2.3	3.48	30	Dec.	22.1	52	35

A—American Stock Exchange. B—Boston Exchange. O—Over-counter or out-of-town exchange. S—New York Stock Exchange. D—Decrease. *If additional common shares have been recently offered, earnings are adjusted to give effect to the offering. Percentage change is in the net income available for common stock. **Based on average number of shares. a—Also regular annual 3 per cent stock dividend, which is included in the yield. Stockholders recently were given the choice of taking dividends all in cash or all in stock. b—Also 3 per cent stock dividend December 30, 1955, which is included in the yield. c—Also 2 per cent stock dividend January 1, 1956. e—Also 5 per cent stock dividend December 28, 1955.

What Others Think

Government Discrimination against Electric Utilities

THE broad and ultimate implications of the federal government's entry into the field of electric power production are understood by relatively few people. That the assumption of control over the electric power sources of an industrial nation is the first step by which control can be asserted over all industry is likewise ignored by the great majority. At least such is the personal view of John Jirgal, recently chairman of the group on power generation and distribution of the Second Hoover Commission. Mr. Jirgal, in an individual capacity, but with his broad Hoover Commission experience to draw on, addressed the 18th annual meeting of the American Power Conference in Chicago, March 23rd, on the subject of "The Federal Rôle in the Socialization of Power." Mr. Jirgal felt that this aspect of the over-all power production industry situation has become especially important with the advent of atomic energy.

The speaker described the position of public power in the country's total supply as follows:

> In 1933, 94 per cent of the power generation in this country was by privately owned plants, about 5½ per cent was from plants of nonfederal public bodies, and only about one-half per cent from federal government sources.
>
> In 1953, only twenty years later, privately owned utilities generated 80 per cent of the power of the country (a decline of 14 percentage points); nonfederal bodies such as municipalities, rural co-operatives, and power districts generated 7 per cent, and the federal government 13 per cent. (By 1960 it will be 16 per cent.) On a relative basis government bodies—federal and nonfederal—increased their power activities over threefold during this 20-year period.
>
> While in 1953, nonfederal public bodies generated only 7 per cent of the country' total power, they sold 13 per cent of the amount taken by ultimate consumers. The federal government, on the other hand, generated 13 per cent but sold only 5½ per cent to those consumers. Private companies, at the same time, sold only slightly more, relatively, than they generated.

IT is thus apparent, Mr. Jirgal declared, that the federal government, on balance, has been furnishing a large portion of the generating requirements of the nonfederal public bodies. In order to explain how this came about, he gave his audience an over-all view of the country's power situation.

During the year ended December 31, 1953, he said, 76 per cent of the power of

the nation was generated in fuel-burning plants—that is, coal, gas, or oil plants—and 24 per cent by hydro plants. Over 40 per cent of all developed hydroelectric power was in the hands of the federal government at that date and over 50 per cent was in the hands of the local and federal governments combined.

As of the same date, federal generating plants, both hydroelectric and steam, had a capacity of about 11,500,000 kilowatts, Mr. Jirgal went on. These plants, together with their transmission systems, have cost the federal taxpayers $2.3 billion, he said. Plants now under construction and presently authorized will represent an installed capacity of about 35,000,000 kilowatts—three times the 1953 capacity—and will represent an investment of upwards of $10 billion.

According to the speaker, TVA and Columbia basin power projects will each contribute $3 billion of the $10 billion total. Other principal federal power developments are on the Colorado river (Hoover—Parker-Davis plants), on the Missouri river and its tributaries, and in the Central valley of California. Summing up, the Hoover Commission expert stated that together these five power systems, situated in five river basins of the country, constitute about 90 per cent of the entire federal power capacity and generation.

THE $2.3 billion and the $10 billion of present and ultimate federal power investment do not include the $2.7 billion of federal loans approved by the Rural Electrification Administration, he explained. It is necessary to remember that these additional billions have furnished over 90 per cent of the investment in rural lines, power plants, and transmission systems made by REA's borrowers, in the view of the speaker.

What justification is there for building federal power plants, Mr. Jirgal asked? On this point, he said:

> In the beginning the federal power plants, being hydroelectric, were associated with river development and were justified as coming within the commerce clause of the Constitution. They were constructed as a part of multiple-purpose projects, the expressed object being to improve navigation, prevent floods, or provide irrigation. These activities were considered at the time by federal water resource development proponents to relate to projects of national interest in which the federal government had a right to engage. But incidental to these ostensible primary activities, it was possible, and in most cases good economics, to develop power as a by-product. So the federal government began developing and selling hydroelectric power—but not on a by-product basis . . .
>
> . . . hydroelectric power is only available at the time and to the extent that stream flow and storage will permit. Since, however, stream flow fluctuates and storage capacities are limited, it is necessary, in supplying the year-round power requirements of an area, to supplement hydroelectric plants with fuel plants. But fuel plants cannot be associated with the needs of navigation, flood control, or irrigation nor of interstate commerce generally; so it is necessary to support on other grounds their construction by the federal government. The grounds usually chosen are the needs of defense and the general welfare. I think it is needless for me to point out to you the outcome of federal power activities based on fuel generation if the general welfare aspect is liberally construed. This is especially important with the advent of atomic energy as a source of fuel for the de-

velopment of power. Already the advocates of public power are urging the construction by the federal government of power plants using atomic energy as fuel, the local public bodies to have first call on the supply.

THE construction of fuel-burning plants to supplement the hydroelectric capacity in the area of the United States east of the Rocky Mountains—which constitutes 80 per cent of the present market for power, but which has only 40 per cent of the hydroelectric possibilities—is of great importance. The speaker insisted that it is necessary to ask whether this fuel-burning capacity should be supplied by the federal government or by local interests. When atomic energy is available on an economic basis should the federal government be allowed to develop its commercial use in the power field or should this be done by private or nonfederal public interests at the local level? He questioned whether the defense and general welfare clauses of the Constitution could justify the federal government's entry into the atomic and other steam energy generation phase of power activity.

In the view of Mr. Jirgal, power generation and distribution are, and always have been, local undertakings, notwithstanding the fact that the distance of economical transmission has been extended from time to time so that wider areas have been served from the points of generation.

He stated that the strictly local character of the power business is indicated by the fact that there are in the United States about 1,000 privately owned companies, about 2,000 municipalities, about 50 power districts or public authorities, and about 1,000 rural co-operatives engaged in power generation and/or distribution. Of the private companies, he said that 287 do over 98 per cent of the total business of all companies, and of the municipalities and power districts 266 do about 70 per cent of the total done by these government units.

FURTHER factual analysis presented by the speaker showed that the balance of these distributors, and practically all of the rural systems, are small and widely scattered. In recent years, the public power district, because it serves a larger area and hence can generate and transmit power more cheaply, has tended to supplant the smaller municipalities as a public power unit. These power districts, still local in character, have been sanctioned by state legislation, often in those regions where federal power is available.

Mr. Jirgal explained that the right of a private company to operate in its territory is exercised through franchise, indeterminate permits, or like contracts granted by a local authority, and the granting authority in many cases has the specific right to acquire the property if it is dissatisfied with the company operations. The right to institute condemnation proceedings is also available in this connection, he said. Many of these local franchises are nonexclusive; *i.e.,* the municipality can build a competing system of its own, or it can grant a franchise to another company in competition with the existing system.

The rates of private companies, and in many cases many of their other activities, are regulated at the local level by state commissions in most cases and where not, by the lesser subdivisions of government, the speaker continued. The rates of the power systems of local public bodies are not regulated in most states, he pointed out, and in none of the states wherein are located the principal federal power projects.

AFTER presenting the above information, the former Hoover Commission official said he thought a knowledge

of such facts made it obvious that the operations of power systems are decidedly local in character, that their right to continue in business is determined at the local level, and that their rates, service, and many other activities are regulated primarily by local commissions.

ANOTHER point made by Mr. Jirgal had to do with the tax and financing advantages enjoyed by public power. He said:

> The private companies are subject to local and federal taxes of all kinds as is also, to a substantial extent, the income from the securities which they must sell in order to finance the construction of their facilities. The power operations of the local public bodies are not subject to federal taxes of any kind and the income from the securities which they sell to finance their construction is also tax-exempt. The revenue bond form of financing, which these public bodies customarily employ, results in their power operations being charged with very little in the way of local taxes.
>
> The tax differences are reflected directly in the cost of financing. The private utilities, by and large, must earn an over-all return of 5½ to 6 per cent on their total investment while, for a local public body, a return of 2½ per cent, or less than one-half as much, will suffice. The rural co-operatives pay only 2 per cent on the money loaned to them by the federal government, through the REA, which furnishes over 90 per cent of their capital requirements. These federal and local tax and financing advantages are of such magnitude that the larger local public bodies, if they choose to do so, can undersell the larger private companies in the same market by 25 to 40 per cent. This obviously is a substantial competitive advantage. It may be somewhat less in the immediate future than in the past because of accelerated amortization and depreciation which are permitted the private companies under the Defense Act and the recently enacted Revenue Code, but even with these tax modifications the advantage will still be substantial.

THE speaker stated that he had presented the foregoing information to show that the private companies are under substantial restraint at the local level in their efforts to supply a given territory. They have heavy tax burdens, their rates are regulated, and it is possible for the local authority to take over their properties. The local public bodies are not so handicapped, he said.

Mr. Jirgal then considered and appraised the rôle of the federal government in the field—one which has served to disturb at the local level these already unequal relations between the privately owned and publicly owned power systems. For one thing, he said, it has granted preference in the sale of federally generated power to local public bodies. For another, it has established low rate levels which the public bodies, but not the private companies, can meet. For still another, he continued, it has, in effect, relieved the local public bodies of making substantial investments in generating and transmission facilities.

Further points made by the speaker were that the federal government has made loans to rural electric co-operatives for the purpose of building power plants and transmission systems; it has sold hydroelectric power as if it were available at full capacity for twenty-four hours a day and 365 days a year, thus creating pressure for the building of steam plants primarily for the benefit of its public power consumers; it has entered into con-

"IT'S THE FEDERAL POWER COMMISSION. THEY WANT TO ASK YOU A FEW QUESTIONS."

tracts with public bodies which provide that the federal project is to be the sole source of supply; and it has required the private companies to "wheel" federally generated power over their transmission facilities to preference customers, or public bodies, under the threat of duplicating their facilities. In important cases, he said, it has encouraged public bodies to build duplicate facilities with grants-in-aid and loans and has encouraged the organization of local public bodies to enter the power business. It is the federal government, of course, which also grants federal tax exemption to these public bodies, he added.

AN analysis of these federal activities in the light of their influence on local public power decisions followed in Mr. Jirgal's presentation. As to the "preference clauses" in the various federal power statutes, he said:

> The federal agencies dealing with power are required by statute to give preference in its sale to public bodies such as states, municipalities, public

utility districts, and rural co-operatives. This preference requirement is not limited to the initial contract which is entered into at the time the federal plant commences operation, but also, in the case of the principal projects, to any power that may have initially been contracted for by private companies. Power may be taken away from these private companies on relatively short notice if it is necessary to meet the requirements of a preference customer. As a consequence, only limited amounts of federal power are available to private companies and these amounts for only limited periods of time.

In 1946, when the principal federal power projects had all come into operation, the preference customers took 38.3 per cent of the power available to nonfederal users. This ratio steadily increased until in 1953, only seven years later, it was 52.2 per cent. Meanwhile, the privately owned utilities, in 1946, received 33.3 per cent of all the salable power from these projects, and in 1953, 18.5 per cent, or only about one-half the relative amount in the earlier year. The industrial customers of the federal government, mostly engaged in aluminum and electrochemical production, received relatively the same amount in each year (28.4 per cent as against 29.3 per cent).

Thus, over 80 per cent of the salable power from federal projects is delivered to local public bodies or is distributed directly by the federal government to its own industrial customers. Federal power is in no sense being produced for the benefit of the private companies.

As the generating requirements of the preference customers are constantly increasing because of load growth, it is inevitable in Mr. Jirgal's view that 100 per cent of federally generated power will eventually be sold to the preference customers. This result is already apparent, he said. He demonstrated this point by saying that no firm power whatsoever would be available to privately owned utilities in the Pacific Northwest after 1960 unless Congress appropriates for and constructs additional projects. In 1953, he stated, these utilities received only 18 per cent of the salable power which was generated. Taking a second example, he said that, until recently, the Central Valley project, in California, sold 95 per cent of its salable output to California private utilities. In the near future, however, all salable firm power will be delivered to preference customers, leaving the private utilities with only the secondary power which the preference customers do not elect to take. The third such illustration the speaker cited was that of TVA, which in recent years, has sold practically no power to privately owned utilities.

As to Hoover dam power, Mr. Jirgal declared that the only reason the private power companies are taking a greater ratio of the output at the present time than their allocated 8 per cent is that the preference customers are not able to absorb their allotments.

Preference policy was just formulated at the turn of the century, at a time private utilities were considered as monopolies and their rates were not regulated, according to Mr. Jirgal. Furthermore, he pointed out that there were no federal income taxes until 1913 and for many years after that date the rate of income taxation was relatively low. He considered that the tax advantage, if any, to a power system which was owned by a public body during this period was, therefore, relatively unimportant. Today, however, power rates are regulated and the rate of

income taxation is the highest it has ever been. He asserted his considered belief that these important changes should make it apparent that reappraisal of the preference policy is necessary.

PROCEEDING to an appraisal of the validity and effects of price and cost standards used in selling federally generated power, Mr. Jirgal declared:

> The agencies charged with the marketing of federally generated power, do not recognize federal income taxes as a cost in establishing rates, nor, except in two cases to an inadequate extent, do they recognize local taxes. The interest rate usually assumed as necessary to cover annual financial costs is 2½ per cent. The federal power costs are, therefore, in line with those of the larger tax-exempt public bodies and where they do not provide a margin of safety over and above the annual financial requirements, they are even lower than the costs of these public bodies. Rates based on the federal government's cost standards are, therefore, attractive to public bodies. They are doubly attractive to private companies but, as already indicated, these companies are precluded from taking any substantial amounts of power by the preference provisions already mentioned.
>
> The effect of the preference and low rate policies is to relieve the local public body, which has significant amounts of federally generated power available to it, of the necessity of building, with attendant risk, some or all of its generating facilities which would otherwise represent a substantial part of its total investment—in most cases 50 per cent or more. With their substantial tax advantage these public bodies are, therefore, encouraged to exert pressure on the private companies to sell them their distribution systems under franchise rights, condemnation, or straight political threat. The companies have the option of selling their properties or facing destructive competition.

THE speaker also found that loans to rural electric co-operatives for the purpose of building power plants and transmission systems had important effects on private utilities. At the beginning of 1953, the federal government had approved $2.7 billion of loans to rural electric co-operatives, of which, he said, one-half billion dollars was for the purpose of building power plants and transmission systems. Since the characteristics of the rural electric load are such that it is difficult to operate its power plants economically on the load, he remarked, the result is that its operations tend toward extension to areas of more diversified load, and to industries. This situation, together with the low interest rate, 2 per cent, which the federal government charges these co-operatives for practically their total construction costs, is what Mr. Jirgal characterized as "an open invitation to them to combine into super co-operatives, build steam plants, and to reach out into territory already served by existing utilities."

The policy, which, the speaker said, in effect relieves local public bodies of the need to invest in generating facilities, is not only confined to hydroelectric power plants built by the federal government in connection with river development, but also envisions relief from building fuel-burning plants and transmission systems as well. Once a supplementary steam-generating system is authorized for the purpose of equalizing hydroelectric power, he suggested that it is easy for federal power to take the next step, which is to undertake to supply the entire regional requirements. This means unlimited steam power

development, he added, and it is not hard to visualize what such a step would lead to if it were to be pursued in the area of largest power use—the eastern section of the United States.

In this connection, the speaker remarked that TVA's power sales agreements have never been limited to its hydroelectric power supply—its contracts require that the distributing systems served by it, and owned almost exclusively by public bodies, during the term of their contracts, must take all of their power from the federal system. These rate and sole-supplier provisions of federal power contracts of the various agencies, he asserted, can be met only if the government builds steam plants. The rate and sales policies of the agencies, accordingly, create pressure on Congress to appropriate for unlimited steam capacity in order to meet what Mr. Jirgal called "the unwarranted year-round and regional supply obligations" which have been assumed.

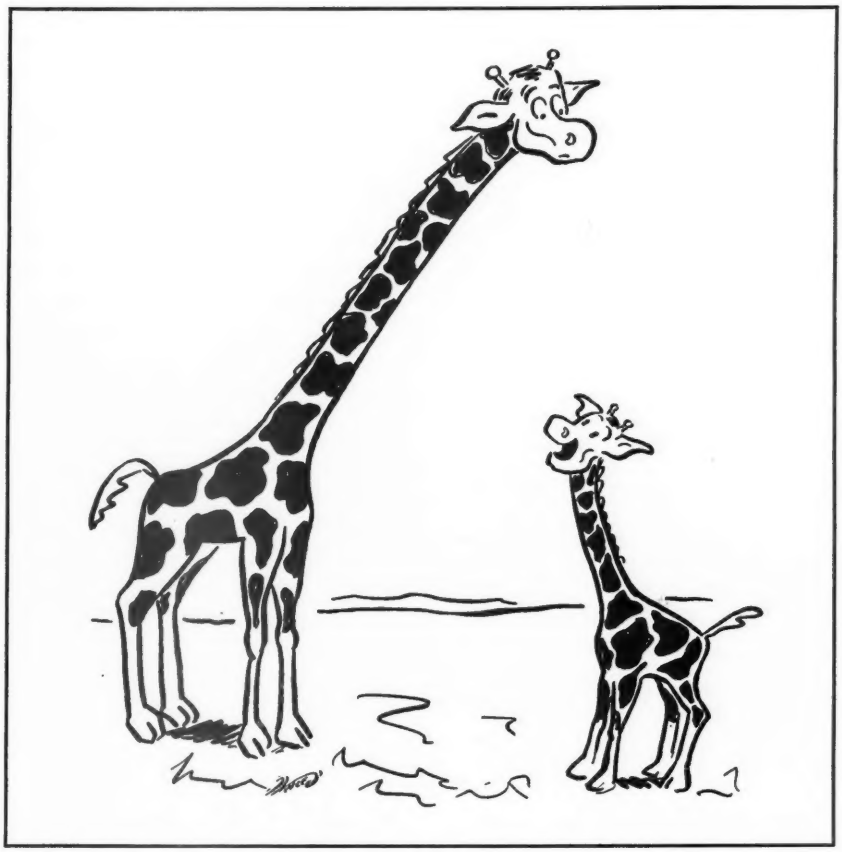
ANOTHER result of the fact that public bodies have first call on federally generated power at low rates is that they are further encouraged by an uninterrupted and unlimited power supply to take over the distribution facilities of the private companies, in the view of the speaker. If the necessary hydroelectric and steam-generating plants were built by local interests—either public or private—this indirect federal encouragement to public power would not prevail and, the speaker suggested, the power issue at the local level would be settled on more equal terms.

On the other hand, since preference customers are seldom located at the federal power site, there is constant agitation to have the federal government build transmission lines which may duplicate facilities of private companies already in the area.

The only way in which this threat to its business can be met by the private company, according to Mr. Jirgal, is to transmit or "wheel" over its own lines the power of its federal competitor. In the ordinary case, he said, the private company cannot, itself, acquire the power at the dam and then transmit it over its own lines and resell it to the preference customer. An invasion of its territory is what he saw as the result. With federal power available, transmission arranged, and a substantial federal tax advantage, an invitation is constantly at hand for a local public body to take over the system of the company whose transmission facilities are being utilized, he said.

MR. JIRGAL declared that public power has been actively advanced by federal agencies, and as an example he quoted two paragraphs from the memorandum of policy issued by the Secretary of the Interior under date of January 3, 1946:

> (a) Active assistance, from the very beginning of the planning and authorization of a project, shall be given to the organization of public agencies and co-operatives for the distribution of power in each project area. The statutory objectives are not attained by merely waiting for a preferred customer to come forward and offer to purchase the power.
>
> *and*
>
> (f) No contracts shall be made that operate to foreclose public agencies and co-operatives from obtaining power from the government project. Contracts with these organizations shall recognize their preferential character and assure them full opportunity to secure the benefits of federal power. Contracts with privately owned companies shall be limited in time and shall contain provisions for the cancellation or modification by the government as necessary to



"KNOW WHAT I WANNA BE WHEN I GROW UP? A TELEPHONE POLE!"

insure preference to public agencies and co-operatives.

The speaker's comment on these paragraphs was that "as long as the preference policy is on the statute books and as long as the low and destructive rate philosophy prevails in the halls of Congress, and as long as the federal government insists on building power plants and transmission lines which are purely for local use and benefit, such interpretations of the statutes are possible."

It is true, he said, that the present administration has encouraged local interests to undertake their own power development, and much progress has been made along that line. But, in his view, it has done nothing to change the preference and low rate policies and there is, therefore, nothing to prevent the future, and even the present, administration from lapsing into previous practices.

AFTER detailing the recommendations of the Hoover Commission affecting public power problems, Mr. Jirgal devoted the latter part of his speech to some re-

marks on the practical aspects of those recommendations. He said, in this connection:

> The task group had a responsibility to meet. It was charged with determining which activities of the federal government in the power field were nonessential and which were competitive with private enterprise. As the task group saw it, its concern was not with what was politically expedient; that decision rests with Congress. The task group decided that the federal government's power activities were nonessential and were competitive with private industry.
>
> It should be stated, parenthetically, that the Hoover Commission proper did not recommend the sale of presently existing properties, but generally followed the other recommendations concerning power made by its Task Force which were the same as those of our task group.
>
> The disposition of existing facilities to local interests is neither impractical nor financially infeasible. It will be recalled that under the Public Utility Holding Company Act of 1935 most of the private utility holding companies were required to liquidate. The assets which were distributed comprised the securities of private companies operating in the various parts of the country which controlled assets totaling billions of dollars. The desirability of holding company liquidation and dissolution was based on the principle, in my opinion, that too much power was concentrated in too few distantly located hands with too little financial risk at stake. Is there any less power in any fewer distantly located hands in the case of the present federal power systems? Isn't this federal power system just another form of holding company similar to those whose dissolution has been directed by Congress? Is there any greater assurance that this far-flung federal power empire can better direct construction and operations from Washington than the holding companies could from New York? And, what is more important, should the federal government, through its policy, assume the rôle, in a local power conflict, of favoring one group of its citizens over another? Isn't the federal government so powerful that to lend its support to one party in a local contest will inevitably result in the confiscation, either directly or indirectly, of the property of the other? In my opinion, the difficulties of disposing of the federal power holdings are no greater than those encountered in eliminating the holding companies and there is just as much reason to follow this course in the one case as in the other.

MR. JIRGAL noted that the point has also been raised as to whether local public and private interests can finance the large power projects. He felt that the answer is decidedly in the affirmative and proof is readily at hand.

He asserted that in the thirteen years ended with 1953, the private utilities in this country, operating primarily in the areas outside those of federal power activity, increased their investment in facilities by $13.2 billion, which was $11 billion more than the cost of complete federal power installations at that date. In 1953 alone, he stated, $2.6 billion was spent for this purpose. Local public bodies at the end of 1953 had invested over $2.5 billion in power facilities.

At the end of 1954, he continued, there were 219 hydroelectric projects in this country, involving an ultimate capacity of over 10,000,000 kilowatts, for which li-

censes had already been granted to local private and public interests by the Federal Power Commission.

More proof cited by Mr. Jirgal lay in the response to the announcement of the partnership principle by the present administration, under which the government finances the navigation, flood-control, and irrigation aspects of the project, and local interests, the power portion. The plan, he said, has resulted in a flood of licensing applications from practically every section in which the principal federal power activities have been pursued in the past. In the Columbia river basin area alone, there were, in the speaker's count, 23 applications from privately and publicly owned utilities for licenses and permits at the end of 1954 involving hydroelectric plants having an aggregate capacity of 6,000,000 kilowatts.

In the Central valley of California voters of the Sacramento Municipal Utility District have just approved a bond issue of $85,000,000 to build hydroelectric and other power facilities, he added, and the cities of Los Angeles, Seattle, Tacoma, and San Antonio and the public power bodies in Nebraska, have, over a long period, financed the construction of generating facilities of their own. "Even the city of Memphis in TVA territory has agreed to build, finance, and have in operation by the time its power contract with that agency expires, a power plant adequate to meet its own requirements," he explained.

"It is time that we get the power business down to the local level where the competitive factors and the rules of fair play will determine the outcome of the struggle between public and private interests," he said. "As I see it, the federal government has no right to choose which of these two groups of its citizens it should favor," Mr. Jirgal stated.

WHAT can the private companies themselves do to protect their interests? Mr. Jirgal stated:

> They should take a lesson from past experience. When the federal government began the construction of its vast power projects in 1933, the private companies, because of the rapid expansion of the twenties, found themselves with the largest ratio of capacity, in excess of requirements, in their entire history. At the same time their ability to finance additional construction was impaired in a great many cases by badly pyramided financial structures and high financing costs—also, in substantial part, the result of this rapid expansion. At the same time there was great unemployment which called for all the additional construction which the economy could muster — including, unfortunately, power plants and related transmission systems.
>
> The present situation calls for sound, long-range, capable, and courageous management on the part of private power companies, which will have for its objective, the maintenance of well-balanced financial structures with sufficient common stock equity to withstand federal government inroads, and with a reserve of bond-issuing ability for periods of financial stringency. Because of a larger base the danger of substantial excess capacity should not be as great as it was in 1933. With ample credit available the private utilities should be able in times of low employment to undertake some construction work in excess of immediate requirements. Pyramided financial structures and thin equities will preclude the accomplishment of these objectives.
>
> Another objective should be to keep the rate level as low as consistent with a fair return on investment. Managements should not rely alone on the reg-

ulatory processes to establish this rate level, but should survey the problem from the standpoint of long-range reasonableness. To this end, they should operate their properties at the lowest possible cost consistent with good service.

As I see it, it is also not in the interest of local public bodies to have the federal government dominate the power-generating field. Local autonomy suffers with financial dependence on the federal Treasury. This, coupled with the uncertainty of continuing congressional appropriations, so necessary to an adequate power supply, should make these local public bodies hesitate to embrace the federal program.

THE chairman of the group on power generation and distribution for the Second Hoover Commission concluded his remarks with a plea for courageous action. Federal power forces are strong and well organized, he said, and compromise with these forces is but a rear-guard action leading to final retreat of private industry from the power field, and perhaps of local bodies as well.

—E. W. P.

Transit Hostess

(See frontispiece, page 22)

THE Mississippi Gulf coast area between Gulfport and Biloxi is the closest salt water year-round vacation land to the heart of the nation. The preponderance of visitors and tourists attracted to this area led the bus system serving the area to provide for their many and varied questions. In what may be a "first" in the region, if not nationally, the buses now carry an attractive and gracious hostess. The primary function of the hostess is to create good will. The hostess chats informally with the passengers, makes announcements of local interest regarding civic affairs, where to go, and what to see.

Hostesses are trained on the bus schedules and all other pertinent information. They ride the buses each shopping day from 8:30 A.M. to 2:30 P.M. not only dispensing information and answering queries, but volunteering shopping tips and directions on how to best take advantage of the day's sales in town. Hostesses' salaries are paid out of the revenue received from the merchants whose places of business they promote. The hostesses are furnished literature by their merchant-sponsors which is passed out to interested riders.

Along with this the hostess imparts information about the resort area. The bus system serves what is described as "the longest man-made public sand beach in the world." Its president, L. J. Renick, says that to the best of his knowledge the Gulf coast is the first area to offer this service to its bus riders. The idea was inaugurated in October, 1955.

Representative of the hostesses is the attractive young lady, Miss Dorothy Hubbard, shown handing shopping and resort information to two tourist riders on the frontispiece page of this issue.

The March of Events

Arizona

Governor Signs Act

GOVERNOR McFarland last month signed into Arizona law an act amending the laws relating to electric cooperatives to include telephone service as electric energy.

Arkansas

Property Valuation Fixed

VALUATION of MidSouth Gas Company properties for rate-making purposes was fixed by the state public service commission last month at $12,500,000, as against a valuation of $13,657,711 requested by the utility. The valuation was the first established for the company by the commission.

The commission order said MidSouth officials testified that the company had no intention of asking for a rate increase, although the company has paid only one dividend to its stockholders.

Court Upholds Commission

A 5-to-1 opinion handed down by the state supreme court last month upheld the state public service commission's refusal to grant a rate increase to Arkansas Power & Light Company in 1954.

Effect of the decision was to order the state's biggest utility to return about $8,000,000 to its customers in rates which were collected under bond in amounts in excess of those fixed by the commission.

A dissenting opinion by Justice Ed F. McFaddin was based on the issue of costs of "construction work in progress."

California

Bond Issue Validation Sought

DIRECTORS of the Sacramento Municipal Utility District recently authorized steps to obtain a court determination of legal issues involved in the proposed issuance of $20,000,000 in revenue bonds to make funds available for the initial construction of the Upper American river power development project. The $20,000,000 issue, recently authorized by the directors, is part of the $85,000,000 in revenue bonds approved at a special election late last year.

SMUD Secretary Joseph E. Spink refused to countersign the bonds, however, until certain legal questions are settled by court determination.

Massachusetts

Public Power Bill Rejected

A BILL proposing the establishment of a state power authority was defeated last month by the state senate.

Opposition to the bill was led by Senator Innes (Boston, Republican), who objected that it would allow taking of private property by eminent domain and issuance of revenue bonds. He said it would mean great loss of tax revenue to cities and towns.

New Jersey

Utility Plea Denied

PUBLIC utilities in New Jersey must bear the cost of retaining public rate counsel in rate increase cases not only in hearings before the state public utilities commission but also through the courts.

This was the unanimous ruling of the state supreme court recently. The court acted on an appeal by the New Jersey Power & Light Company against a lower court ruling that it must pay the fee of rate counsel representing the public on an appeal to the appellate division in a rate increase matter. The company contended that the 1951 statute dealing with rate counsel provided only that they be paid for work before the commission.

The law provides that the counsel represent the public interest and that their "reasonable compensation and expense" be borne by the utility. Such payment, however, cannot exceed one-tenth of one per cent of the utility's intrastate revenue in the preceding calendar year.

The company paid a charge of $6,601 for the services of the public rate counsel before the commission. They had been retained in 1951 by the attorney general to represent the public before the commission on a petition for a rate increase by the power and light firm. The commission dismissed the petition and the utility appealed to the courts. The company contested a charge of $3,600 for their services on the appeal, contending that the law dealt only with the initial action.

Justice Harry Heher, in the opinion, wrote that the legislature quite evidently had in view a rate "proceeding" that "in its very nature was subject to judicial examination, and so the continuance of public representation until the end, at the expense of the utility."

New York

Requests Rate Increase Withdrawal

WITHDRAWAL of its petition to the state public service commission for a $1,224,358 annual increase in electric rates was requested recently by the Long Island Lighting Company, which said the "extraordinarily cold weather" had resulted in a revenue increase during the first quarter of the current year sufficient to offset the need for higher rates.

Counsel for the company, which serves consumers in Nassau and Suffolk counties and the Rockaway peninsula in Queens, asked the petitions filed last January and February requesting a higher tariff for electric service for both residential and commercial users be canceled. He said weather conditions since the beginning of the year had made it possible for the company to offset increased operating expenses by increased revenue from production.

The proposed new tariffs were based on the company's production in 1955.

Governor Signs Sales Tax Bill

GOVERNOR Harriman last month signed a state legislative bill giving the state as abandoned property $1,000,000 in New York city sales taxes mistakenly collected by the New York Telephone Company on calls originating in New York city to points outside the city.

Harriman noted that Mayor Wagner had opposed the bill on the ground that the money belonged to New York city as regular tax revenue. The governor said he agreed the money was intended to go to the city but said it legally belonged to the state.

To avoid any legal question, the governor said he would approve the bill and ask the state legislature next year to restore the money to the city.

Pennsylvania

Blocks Gas Rate Raise

THE state public utility commission recently blocked for six months, to next December 2nd, an estimated $2,725,000-a-year rate increase asked by the Peoples Natural Gas Company of Pittsburgh. At the same time, the commission ordered an investigation to determine whether the increase is justified for the firm's 241,300 consumers in 13 western counties. The increase would have gone into effect June 2nd if the commission had not suspended it.

Peoples said the increase would amount to approximately 5 per cent for all residential, commercial, and industrial users. The company said the increase is sought to offset "steeper costs and an earning lag in a boom period." Increased demand for gas required plant extension and large amounts of capital, "disproportionate to the revenue received," it added.

Electric Rate Reduction Ordered

LAST month the state public utility commission approved a new rate schedule reflecting a $923,000 annual rate reduction for customers of the Metropolitan Edison Company, Reading.

The reduced rates resulted from the commission's rejection in March of a previous rate revision proposed by the firm. The new schedule went into effect on bills for the first full month of service after March 20th. The revised schedule results in a cut of about $1\frac{5}{8}$ per cent for all domestic customers except those in York county where elimination of a 25-cent monthly differential means an approximate $2\frac{1}{2}$ per cent increase, commission studies showed.

Rhode Island

House Approves Municipal Power Plants

A BILL granting Rhode Island communities the right to operate their own power plants passed the state house last month after sharp disagreement between Democrats and Republicans over the relative merits of public *versus* private ownership of utilities.

Representative Doris (Woonsocket, Democrat) said the permissive legislation could enable a municipality to bolster its economy and reduce taxes. He said publicly owned power plants are common in western and southern states.

When a number of representatives rose to second the motion for passage, Representative Lee (East Providence, Republican) said he was "apprehensive" to see "so

many seconding Socialism." He added that Socialism is "a first cousin to Communism."

Representative Doris said private power is developed and sold in Rhode Island "at terrific cost to the taxpayers." But Representative Pearlman (Providence, Republican) said publicly owned airlines in France and Britain and the TVA development in this country run at a loss. He asked for examples of profitable public power plants. The bill would permit a city or town to start a municipal power system only with taxpayers' approval.

Washington

Power Rate Cut Proposed

SEATTLE'S city council last month was asked by City Light officials to approve electric rate reductions amounting to about $500,000 annually. The cut was reported to be the third since City Light took over Seattle properties of the Puget Sound Power & Light Company in 1951. Rate reductions of $1,000,000 went into effect in July, 1952, and in November, 1953. Comments as the latest reduction was proposed indicated that City Light plans to offer sharp rate competition with natural gas, to be available in Seattle later this year.

City Light Superintendent Paul J. Raver said that 1,500 commercial customers now using more than 3,000 kilowatt-hours a month will save $300,000 under the new rates, while savings of $200,000 will accrue to some 135,000 residential customers now on City Light's all-electric rate.

Wisconsin

Gas Rate Increase Granted

THE state public service commission last month granted rate increases totaling $716,728 annually to the Milwaukee Gas Light Company, which had asked for an increase of nearly three times that amount.

The rate changes, effective May 6th, will give some suburban users sizable rate cuts, under a new uniform rate which abolishes former zone rates, a holdover from the days of manufactured gas which cost more to pipe to outlying areas. The firm now buys its gas from the Michigan Wisconsin Pipe Line Company.

The increased cost of gas to users in the inner zone will actually amount to $821,-021 a year. But rate cuts for Milwaukee's outlying suburbs will partly offset this, making the over-all increase $716,729.

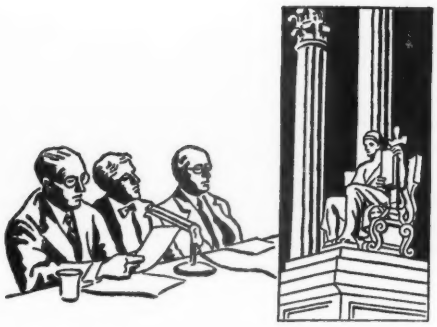
The commission estimated the rate boost would permit a return of 6.2 per cent on the company's net investment cost rate base of $59,439,322.

Commissioner Named

STATE Senator Arthur L. Padrutt (Republican) was appointed a member of the state public service commission last month by Governor Walter Kohler. Kohler also announced the resignation of James R. Durfee as chairman of the commission. Durfee telephoned his resignation to the governor from Washington shortly after the U. S. Senate confirmed Durfee's appointment as chairman of the Civil Aeronautics Board. Kohler named George Steinmetz, a present member of the commission, to succeed Durfee as chairman.

Padrutt, a member of the state legislature since 1941, will serve Durfee's unexpired term, which runs out March 1, 1957.

Durfee, fifty-eight, was nominated for his new post by President Eisenhower.



Progress of Regulation

Trends and Topics

Managerial Discretion As to Expenses

THE decision by the Arkansas commission to adjust administrative and general expenses of Arkansas Power & Light Company by more than one million dollars, for rate-making purposes, again raises the question as to how far a commission may go in overriding managerial discretion. The commission made this drastic reduction after comparisons with expenditures by other companies (case reviewed in PUBLIC UTILITIES FORTNIGHTLY, April 26, 1956, at page 634).

The power of commissions to determine whether expenses incurred by a public utility are reasonable has been generally recognized. A commission is vested with discretionary power to exclude improper elements of expense (91 PUR NS 129). A utility's right to recoup expenditures for operation is subject to the limitation that they must be reasonable. In numerous cases commissions have exercised authority to pass on the reasonableness of expenses.

Limitation on Commission Interference

But, since the reasonableness of expenses depends largely upon judgment, a line between proper commission control and improper interference may be noted in some of the decisions. The United States Supreme Court held that the reduction by a state commission of a gas company's claim for gas lost as a result of leakage, without evidence of negligence or waste by the company, was arbitrary (6 PUR NS 449). The court also ruled that commission action reducing the company's new business expense without evidence of inefficiency or improvidence was arbitrary. As to the loss itself, the commission did not deny that the loss was incurred. Nor did it question the fact of payment of the new business expense. The suggestion was made by the commission that there was no evidence of competition, but the court took judicial notice of the fact that gas is in competition with other forms of fuel such as oil and electricity. It said that a business never stands still. It either grows or decays. Within the limits of reason, advertising or development expenses to foster

normal growth are legitimate charges upon income for rate purposes. When a business disintegrates there is damage not only to stockholders, but also to the customers in the cost or quality of service.

The New Jersey supreme court, although upholding a rate order, said that the commission has no power to dictate the policy of a utility company unless that policy is inimical to public interest (100 PUR NS 379). In an earlier case (PUR1928B 242) the same court decided that the right to regulate public utilities does not destroy the right of private ownership, and all the incidents thereto, except in so far as may be necessary to exercise properly the power of regulation.

The Alabama supreme court observed that the commission is not the owner of the utility and, therefore, is not its financial manager. It held that in allowing expenses for rate-making purposes the commission may not substitute its judgment for that of the owners unless the owners have abused their discretion. Good faith is presumed on the part of management. The court also said that in the absence of a showing of inefficiency, improvidence, waste, or bad faith on the part of management, the commission cannot legally ignore the necessary and reasonable expenses of operation. Only where affirmative evidence is offered, challenging the reasonableness of operating expenses, on the ground that they are exorbitant, unnecessary, wasteful, extravagant or incurred in the abuse of discretion or in bad faith, or are of a nonrecurring character, may a commission disallow expenses actually incurred (84 PUR NS 221).

The Wisconsin supreme court similarly held that the amount to be spent by a public utility in the operation of its plant is in the first instance a question for management, and the commission is invested with no managerial power (30 PUR NS 65). It also said that the commission may not ignore actual expenses where the management has not been extravagant, improvident, or wasteful, even though in the light of experience and present conditions it is possible to say that some part of the expense might have been avoided. The Minnesota commission agreed (30 PUR NS 371). It noted that courts have said that neither the court nor commission can substitute its judgment for that of the officers of the company. A similar ruling was handed down by the Pennsylvania superior court (7 PUR NS 359).

Likewise the Virginia supreme court of appeals held that the commission, in passing upon the allowability of operating expenses, may not assume the duties or usurp the powers of management (89 PUR NS 33). In that case a telephone company's pension plan, involving actuarial accruals for payment of future pensions, was approved where the record indicated that the company's management adopted the plan and no abuse of discretion was apparent. To support this ruling the court referred to an opinion by the Minnesota supreme court in which it was said that, in deciding whether a specific allowance for payments should be granted, the commission must necessarily give due consideration to the discretion exercised by management in establishing a pension system (28 PUR NS 158). This court noted that if the amounts are reasonable and are actually paid as pensions, or are allocated to a fund pursuant

to a feasible plan whereby it is assured that the sums so allocated will be used to pay pensions in reasonable amounts, allowance should be made.

The Vermont supreme court held, on the other hand, that in fixing rates the commission cannot properly refuse to find what expenses should be allowed on the ground that they are items entirely without its jurisdiction and wholly within the control of management, in view of its authority to disallow expenses which are unreasonable or unwarranted (79 PUR NS 508). But, the court cautioned, the function of the commission is that of control, not of management, and regulation should not obtrude itself into the place of management. For example, the court said, salaries and advertising expense call for the exercise of judgment on the part of management, and, although these expenses should be scrutinized with care by the commission, they should not be disallowed or reduced unless it clearly appears that they are excessive, unwarranted, or incurred in bad faith.

Review of Current Cases

Proposed Electric Rates Found Excessive upon Consideration Of Proposal to Redistribute Rate Burden

A PROPOSAL by Metropolitan Edison Company, an electric utility, "to redistribute the rate burden among its customers in the light of present costs" was in substance approved by the Pennsylvania commission. Although the proposed redistribution contemplated a slight reduction in aggregate revenues, the commission found that the new rates would be excessive. Lower rates were therefore required to be filed.

The company served nearly 231,000 customers in a number of cities, towns, and counties, and furnished power to several electric utilities and boroughs. As a relatively small part of its operations, it also supplied steam-heating service. The city of York, being itself a customer as well as the representative of its inhabitants who were also customers, complained that the existing rates were excessive. Its petition was combined with the company's for the purpose of hearing.

The commission was required under Pennsylvania law to consider, among other things, original cost and reproduction cost in determining the fair value of the company's properties. The necessary measures of value were submitted and considered.

Allocations

Boiler plants used jointly to supply electric service and steam heating were required to be allocated. This was done on the basis of the ratios of peak and commodity steam requirements of each service, giving equal weight to each ratio. The ratios of boiler plant equipment and turbogenerating units found to be ascribable to each service were applied to accessory electrical equipment, miscellaneous power plant equipment, land, and structures and improvements associated with the steam-generating plants.

Accrued Depreciation

Depreciation reserve, as shown on the company's books, resulted from the use of

several inconsistent depreciation methods during the years and was considered inaccurate. It was disregarded since a reliable estimate of accrued depreciation was available, developed in accordance with the principles of straight-line depreciation. This estimate was based principally upon engineering judgment founded upon mortality studies on the property of several comparable electric companies. Retirement ratios developed from mortality data in the instant company's records formed the basis from which survivor ratios were derived.

While the commission observed that the company should have given initial consideration to its own experience in the development of the estimated depreciation reserve requirement, an actuarial study of its retirement experience, made during the hearings, substantiated the estimate based upon engineering judgment. After salvage adjustments were made to the proposed accrued depreciation, the item was allowed.

Capital Cost and Fair Return

The company's recent capital structure comprised 51.7 per cent debt, 18.6 per cent preferred stock, and 29.7 per cent common stock equity. During the preceding 5-year period its capital structure was slightly more conservative, and the company's stated objective was even more conservative. All of its common stock was held by its parent corporation.

The average capital structure of the parent with its other domestic subsidiaries was 47.1 per cent debt, 15.4 per cent preferred stock, and 37.5 per cent common stock equity. It was the policy of the system to have all senior debt issued by the subsidiaries and all common stock offered by the parent. Considering all these circumstances, the commission adopted a representative structure for Metropolitan Edison comprising 51 per cent debt, 17 per cent preferred stock, and 32 per cent common equity.

Reasonable capital costs for the company were fixed by the commission at 3.25 per cent for debt, 4.25 per cent for preferred stock, and 9 per cent for common. Urging an 11 per cent cost for common equity capital, the company recommended that the commission take a "fresh look" at the question of fair rate of return. It was insisted that, in determining the cost of equity capital, primary consideration should be given to the earnings-equity ratio and not to the earnings-market price ratio, which has been the commission's primary consideration in the past.

The commission agreed that the earnings-equity ratio measures the rate of return actually earned on the equity capital originally invested but asserted that it is no measure of the return required by current investors. Such a ratio, said the commission, is by its very nature no evidence of the cost of equity capital upon which a current fair rate of return may be predicated. Giving primary consideration to the earnings-price ratio, the commission noted that the amount of return which it was allowing would provide earnings of 14.2 per cent on the company's actual equity capital, a greater percentage than that enjoyed by other comparable companies.

Computing composite cost of capital at 5.26 per cent, as against 5.74 per cent proposed by the company, the commission fixed 5.50 per cent as a fair rate of return for this utility.

Operating Expense Items

A notable item of operating expense disallowed was an annual rental payment for the use of electric plant under a 99-year lease from Reading Electric Light & Power Company. Actually, after more than a half-century of operation under the

lease, the plant appeared to be represented on the books of Metropolitan Edison in the form of additions and betterments, thus being contained in the rate base. Rental payments therefore could not be allowed as an operating expense.

While, normally, storm damage sustained by an electric company is amortized over a period of five years, the commission permitted a period of three years to be used by this company. The increased frequency of damaging storms in recent years was the impelling consideration for the shorter period.

Tax Questions

The company complained that the city of York imposed a 2 per cent tax on gross receipts derived from sales of electricity in the city. The commission was urged either to eliminate the tax or permit a surcharge to be added to the bills of customers in York. The question of the legality of such a tax, it was observed, is one for the courts to decide. If all such local costs were put into local rates, the purpose of system-wide rates, toward which the company had been aiming for a number of years, would be defeated. And the cost of applying a surcharge, the commission noted, would be disproportionate to the amount involved.

In passing upon accrued taxes, the commission disallowed a contingent income tax liability representing "items viewed as most vulnerable" in a filed tax return. An item of state taxes paid under protest, however, was allowed in the accrual.

Rate Burden Redistribution

In establishing a system-wide rate schedule, domestic rates were allowed to be increased. This increase bore hardest upon the York area where existing rates were lower than those in the balance of the company's territory. But no evidence was offered by the city with respect to cost of service to its inhabitants as would justify retaining the low rates in that area. The company indicated that its purpose in proposing new rates was to eliminate inequities and discriminations and establish rates more in line with costs.

In place of existing ill-designed fuel clauses applicable to certain rates, the commission authorized approximately compensating increases in the basic rates. The company would, however, incur a small net reduction in revenues from large primary power users, as well as a decline in municipal service income. Several rates out of use were permitted to be abolished, and a new high-tension power rate was established on the basis of cost of service. *Pennsylvania Pub. Utility Commission et al. v. Metropolitan Edison Co. Complaint Docket 16381, 16355, March 12, 1956.*

Competitive Bidding Requirement Waived for Stock Issue

WAIVER of competitive bidding requirements was granted by the District of Columbia commission with respect to an issue of no-par common stock proposed to be offered by the Washington Gas Light Company to holders of outstanding common. The issue was intended to finance a construction program.

The 1955 equity ratio of the company, including earned surplus, amounted to 37.90 per cent, which would be improved by nearly 4 percentage points upon completion of the new stock issue. However, if consideration were given to a contemplated short-term debt financing to be undertaken later in the year, the equity ratio would again become substantially the same as the original figure. The *pro forma*

capitalization ratios, however, were considered satisfactory.

On the basis of actual earnings per share during 1955, the earnings yield on the offering price of the new stock amounted to 8.05 per cent. The commission concluded that the earnings were sufficient to support the proposed issue.

A standing order of the commission requires that bids for the sale of securities be solicited from at least three responsible unaffiliated financial institutions. Because of the circumstances of the case, this requirement was waived. Most of the company's outstanding stock was locally owned, and in order to achieve a large acceptance of the subscription offer in the service area, the company had arranged to obtain the co-operation of a group of Washington investment dealers, besides one New York firm. Any unsubscribed shares were to be underwritten by this group. Their commissions, as well as the other expenses of issuance, were found to be reasonable. Finally, the commission thought it doubtful that any other substantial competing group of Washington investment dealers could be assembled to make an alternative bid for the sale of the stock. *Re Washington Gas Light Co. Order No. 4263, PUC No. 3570, Formal Case No. 448, March 5, 1956.*

Stock Issues Preferable to Cheaper Bond Issue For Capital Structure Improvement

THE New Mexico commission authorized El Paso Electric Company to issue new common and preferred stock without par value. The proceeds were to be used to pay short-term debt, reimburse the company treasury for construction expenditures, and provide funds for further construction. The common was proposed to be offered at not less than 90 per cent of the bid price of the company's common stock in the over-the-counter market, while the preferred was to be offered at not less than $100 a share, plus accrued dividends, to be determined by competitive bidding. Adequate provision was made for pre-emptive rights.

Although debt capital could be obtained slightly cheaper than equity money, the management considered the issuance of stock a preferable course because of the company's capital structure. It consisted of 55.3 per cent debt, 8.7 per cent preferred stock, and 36 per cent common equity, including earned surplus which was a substantial element. After issuance of the new stock the ratios would be 47.8 per cent debt, 13.5 per cent preferred, and 38.7 per cent common equity, including earned surplus. The commission agreed that the value of an improvement in the debt and equity ratios would more than offset the difference in cost of new equity money as compared with the lower cost of additional debt capital.

The commission was satisfied that the company would have no difficulty in meeting its debt service requirements, with an ample safety margin, after completion of the proposed financing. *Re El Paso Electric Co. Case No. 460, March 6, 1956.*

Baltimore Transit Gets "Advisory" Rate Increase

AFTER the recent seizure of the Baltimore Transit Company by the governor of Maryland while a strike was in progress, the administrator who was ap-

pointed to operate the properties applied to the commission for an advisory opinion relative to a rate increase. The administrator believed that a rate increase was necessary, but he was permitted to raise existing rates under the law only upon the advice of the commission. Action on an earlier application for rate relief filed by the company itself was necessarily deferred, since the commission was of the opinion that its jurisdiction under the seizure statute was limited to rendering an advisory opinion only.

Labor Cost When Strike in Progress

Affirming that the administrator could not operate the company's property without regard to proper compensation for the use of the facilities, the commission proceeded to inquire into the question of a fair rate of return.

In attempting to ascertain operating expenses for a *pro forma* year, the question of labor cost arose. The strike being still in progress, no agreement had as yet been secured as to wages. Nor was any other indication of future labor cost apparent. In these circumstances the commission adopted for the *pro forma* year the last company wage offer, though the employees had rejected the offer. For the purposes of this proceeding, however, the commission would not venture to calculate labor costs beyond a one-year period.

Passenger Loss

In determining the income for the *pro forma* year, the commission applied several theories which it believed to be generally applicable to urban mass transportation systems. They were these: That for each one per cent increase in the fares of such transit systems, a loss of .29 per cent in passengers will occur; that in any year of operation, conditions of service and fares remaining static, passengers will decline 3.75 per cent; and that in the event of a strike a further decline in passengers will take place, depending upon the duration of the strike. A 5 per cent diminution in traffic was assumed in applying the last proposition to this case, the strike having then lasted five weeks.

Giving due consideration to these factors and basing its calculations on a 20-cent basic fare (a 2-cent basic increase), the commission arrived at an income figure which could be expected to yield approximately a 5 per cent return. This was considered to be reasonable for the use of the company's facilities, and a 20-cent basic fare was therefore recommended to the administrator. *Re Baltimore Transit Co. Case No. 5461, March 8, 1956.*

City Regulation of Transportation between Railroad Terminals Not Precluded by Commerce Clause

IN a declaratory judgment proceeding brought by a railroad, a federal district court ruled that the city of Chicago had authority under its police power to provide for the licensing of vehicles used to transport through passengers between railroad terminals in the city. Such transportation was being furnished by a motor transportation company under contract with the railroad. The railroad asked the court to prevent the city from applying the ordinance.

The railroad asserted that the ordinance was invalid as an encroachment upon the powers of the Interstate Commerce Commission to regulate interstate transportation. Virtually all of the passengers, it was said, moved in interstate commerce.

Alternatively, the railroad claimed that the ordinance was an undue burden on interstate commerce and therefore invalid, because it premised the licensing of terminal vehicles upon public convenience and necessity as determined by city officials who could, by the licensing process, limit the number of vehicles used and thereby interfere with the free flow of interstate commerce.

Ordinance a Valid Police Measure

The court noted that the power of the city to regulate the use of its streets by motor vehicles includes the right to impose reasonable conditions and restrictions to promote the general welfare. Such regulation, applied as a police measure and not extending unreasonably beyond the occasion of its application, is not invalid merely because it may incidentally affect interstate commerce.

With respect to such regulation as that here in contention, said the court, the Congress will not be deemed under the commerce clause to have superseded or excluded state action (and action by subdivisions of the state) unless its intent to do so is made definite and clear. It was observed that the Interstate Commerce Commission had not yet undertaken to supervise the interterminal transportation here in dispute.

The mere fact, the court indicated, that the ordinance conferred a potential power upon the city officials to interrupt the movement of interstate passengers from one terminal to another by unduly restricting the use of vehicles for their conveyance was not enough to warrant judicial intervention to prevent the city from acting under the ordinance. That power, in itself, does not violate the commerce clause, nor does the discretion vested in the city officials constitute a burden on interstate commerce. The court concluded that the ordinance was not invalid as an attempt to control interstate commerce, but was a legitimate exercise of police power by the city in the interest of the safety and convenience of the public. *Atchison, T. & S. F. R. Co. et al. v. City of Chicago et al. 136 F Supp 476.*

Commission Prefers Irrevocable Subscription Plan to Employee Stock Option Plan

THE Georgia commission approved a gas company's request to issue mortgage bonds, serial notes, and common stock, subject only to revisions with respect to an option plan on the common stock which the company had outlined.

The company had requested authority to option an additional 30,000 shares of its $5 par value common stock to officers and executives selected by the board of directors. The rights, when granted, would entitle the aggregate number of holders to purchase an aggregate of 6,000 shares of common stock during each year of a 5-year period after the effective date of the plan. The option price of the stock subject to the plan would be $12.50 per share and would be payable in cash. The rights would not be cumulative from year to year and failure to exercise in any year would not affect the rights of any holder as to option rights in any subsequent year during the 5-year period.

The option rights would terminate upon severance of employment, except under any plan of retirement later adopted by the company. There would be no stockholder rights with respect to shares cov-

ered by an option until the stock had been fully paid for and issued. Proceeds from the sale of the common stock under the plan would be used to repay the principal amount of notes, the issuance of which the commission was also requested to approve.

In an earlier case, the company had sought authority to issue and sell 30,000 shares of its $5 par value common stock to certain officers and executives as determined by the board of directors. In that instance, the requested authorization was denied on the ground that it did not meet the statutory requirement for a showing of need for capital funds for acquisition of property, construction and equipment of power plants and car sheds, or the completion, extension, or improvement of facilities. In the current application, this requirement was held to have been met.

The question which concerned the commission was whether the over-all arrangement would produce the lowest cost of capital to the corporation. The commission pointed out that, since the option rights were voluntary, it could be assumed that if the market price of the stock was $12.50 per share or less, when the option matured, the sale would not take place. If the market price was more than $12.50 per share, the sale would be made without question. In the former event, the corporation would receive only the lower current market price for such stock as was sold, while, in the latter event, the corporation would receive only $12.50 per share irrespective of what the market price might then be.

Cost of capital, the commission said, is the measure of fair rate of return to be allowed. Cost of capital for a particular security declines as the price of that security increases. Therefore, a regulated public utility should market securities at the best price obtainable in order to insure the lowest cost of capital.

If the company chose to sell stock to officers and executives at $12.50 per share on a subscription basis for future delivery on future payment, or on a reasonable time payment plan under which the sale was irrevocable, concluded the commission, the transaction would be authorized since the risk resulting from a different market price was equally shared by the purchaser and the corporation. Accordingly, the order approved the sale pursuant to an irrevocable subscription in lieu of the option plan. *Re South Atlantic Gas Co. File No. 19440, Docket No. 921-U, March 6, 1956.*

Rate Base Re-examined and Tax Deferrals Charged to Net Operating Income

On the basis of "materially different evidence" made available to the Indiana commission by a reviewing court, the commission modified its original order in a rate proceeding brought by an electric company, particularly in respect to the rate base determination. Upon review of the original order, the company produced the "materially different evidence" and the court thereupon by statutory requirement, transmitted the record of the evidence to the commission for its further consideration and action.

Rate Base Increased

This evidence included reproduction cost estimates, which impelled the commission to revise upward its initial determination of the fair value rate base. While, because of the inherent speculative nature of reproduction cost estimates, the commission refused to accept them at face

value, it observed, on the other hand, that they were not nearly as speculative as those arrived at by the current-repricing or current-cost method. Current-cost estimates were presented in the initial proceedings before the commission. In considering the new evidence, therefore, the commission gave greater weight to the reproduction cost estimates than was earlier given to the current-cost calculations.

Expert Opinion and Fair Return

Reviewing new expert testimony relating to fair rate of return, the commission pointed out that there is no established economic formula sufficiently authoritative to be universally applied in determining a proper return in a particular instance.

Even one's business judgment, the state commission noted, is influenced from day to day by quotations of the money market, by quotations of securities, by reports of dividends, by market conditions, and by good or bad times generally.

The commission's ultimate goal is to permit utilities to provide adequate service to the largest number of citizens at reasonable cost. Since the determination of a fair return is by statutory requirement to be made by the commission, the ultimate determinations upon fair return are not susceptible of proof by expert opinion. A return of $18,250,000 was allowed on the fair value rate base fixed at $320,000,000.

Tax Deferral Funds

The question was posed whether deferred federal income taxes should be charged against net operating income. The item was $2,609,000 and, as the commission pointed out, would amount to about $6,000,000 in rates. Such accumulations provide interest-free capital and have the effect of reducing the cost of capital. Noting the intent of Congress in permitting the tax deferrals, to stimulate industry by providing interest-free funds, the commission decided, as in the original proceeding, that this item should be allowed as a charge against operating income.

The use of such funds was restricted only to the extent that they could not be paid out in dividends to the common stockholders. They could be made available, it was indicated, for any other purpose, including the payment of excessive maintenance charges, the construction of plant on which the utility might then seek to earn higher rates, and for the payment of capital costs other than equity costs.

Since additional evidence was requisite to the fixing of rates in this case, the commission appointed a date for a later hearing and required further evidence to be presented at that time. *Re Public Service Co. of Indiana, Inc. Cause No. 26077, March 9, 1956.*

Commission Finding of Necessity Overrides Zoning Ordinance

A FIRST-CLASS township, said the Pennsylvania superior court, has the power to zone with respect to buildings of a public utility, subject to a determination by the commission that the present or proposed situation of such buildings may be reasonably necessary. The town does not have power, either express or implied, to regulate utilities with respect to uses and structures other than buildings.

The case was an appeal from a commission order authorizing an electric company to construct a one-story building to be used to house equipment for operation

of an outdoor substation. The township contended that the commission had considered only the consuming public, and had disregarded the interests of the people of the municipality. It further contended that the commission should have considered the question of reasonable necessity with reference to the facilities of the substation as well as the building.

The public for whose convenience, accommodation, safety, and protection the law is concerned, pointed out the court, does not consist solely of persons served by the utility, but also includes persons generally who may come into contact with the utility's facilities. The voluntary expansion or extension of the facilities of a public utility lies in the discretion of company management, but to the extent that property or rights or easements therein must be acquired through condemnation, the utility must establish the necessity therefor and obtain commission approval.

In such a proceeding, the commission may properly pass upon the question of the location of facilities, especially if the utility should act wantonly, arbitrarily, or unreasonably in selecting a site. However, the commission could not interfere with company management unless an abuse of discretion or arbitrary action was shown.

The court concluded that the evidence showed that the substation was urgently needed to provide adequate and reliable electric service in the load area. Its location had been dictated by considerations which, in the commission's judgment, management had justifiably found controlling. The court found no abuse of discretion, error of law, or lack of evidence to support the finding and order of the commission. No other site was available and the proposed situation of the building on the substation plat was reasonably necessary for the convenience and welfare of the public. *Lower Chichester Township v. Pennsylvania Pub. Utility Commission, 119 A2d 674.*

Strict Accounting Ordered for Transactions between Utility and Officers

STRICT accounting should be maintained for all transactions between a public utility and its officers, directors, and stockholders, said the Utah commission, in ruling on a customer-stockholder complaint against the management of an electric company.

The president and principal stockholder of the company conducted a chicken-raising business on company land, and although he received electric service from the company for the operation of various equipment used in the business, the electricity was not metered, no bills were rendered, and no payments as such were made for the service. Nor was any rent paid. Company employees were engaged to some extent in this private venture, as well as in other enterprises of the officer.

To show payment, however, the officer testified that he had not claimed the full monthly salary to which he was entitled, intending the remaining portion as a settlement for company services. It also appeared that he performed various unpaid services for the company, aside from his duties as president.

On the whole, the commission found that the conduct of these private enterprises had not necessarily been to the financial detriment of the company. It therefore denied a request of the complaining customer that the officer be required to pay for past electric service.

The commission ordered a strict segregation of accounts with respect to any future transactions or joint ventures of the company and its officers. It further ordered that future electric service to the president of the company be metered, billed, and paid for in money in accordance with the applicable rate schedule.

Dividends and Corporate Meetings

Further complaint was made that, despite regular earnings and a substantial earned surplus, no dividends had been declared for a number of years. The commission observed, however, that it had no power to require a declaration of dividends, since that is a matter within the prerogative of management.

It was also shown that the officers of the company had been extremely lax in holding directors' and stockholders' meetings. Again the commission noted that it lacked authority. Although it urged the holding of regular meetings, it could not order them. The fact, said the commission, that members of one family are the majority stockholders of a company, as in this instance, does not obviate the necessity of the meetings. *Re Swan Creek Electric Co. Case No. 4189, February 20, 1956.*

Commission Jurisdiction over Telephone Service Extension Is Exclusive

THE Tennessee supreme court dismissed an action brought by citizens and taxpayers against a telephone company for a mandatory injunction requiring the company to extend service. Statutory penalties for discrimination had also been sought.

The court held that the commission, and not the court, had exclusive and primary jurisdiction over extensions. Matters within commission jurisdiction had first to be determined by the administrative body before the courts would step in.

The taxpayers had also contended that the company failed to provide adequate service and thereby rendered itself liable for statutory penalties for discrimination. The people of the community had first to make known their application to the commission, said the court, before the community could complain in court about the discriminatory aspects of not being served. There had to be an obligation of the company to supply service before discrimination could arise. *Breeden v. Southern Bell Teleph. & Teleg. Co. 285 SW2d 346.*

Commission Approves Mortgage Loan Only to Extent Required for Utility Purposes

A COMPANY conducting pipeline utility operations, but also carrying on nonutility operations, such as furnishing liquefied petroleum and merchandising appliances, sought approval of a $90,000 loan from the New Mexico commission. The loan was to be secured by a mortgage on the company's properties.

The proceeds were to be used to repay the company's indebtedness, to provide working capital, and to provide funds for extensions. A substantial part of the fixed assets of the company was devoted to nonutility operations and a substantial part of the company's gross sales revenue was derived from the same.

Security Issues Governed by Statute

The commission referred to a statute which embodied the public policy of "strict" control over the issuance of securities. The purposes for which a utility might issue securities, as set forth in the statute, were for acquisition of property, construction of extensions or improvements, maintenance of service, discharge or lawful refunding of obligations, and reimbursement of moneys actually expended for such purposes from income or other treasury funds not secured by a security issue.

The commission concluded that it could not fairly read the statutory mandate as permitting it to place its stamp of approval upon an issue of securities, secured by a lien upon all of the corporation's properties, when the major portion of the proceeds was to be applied to nonutility purposes.

The commission then went on to explain the reasons why only the portion of the loan applicable to utility purposes could be approved.

Protection of Ratepayers

One of the principal purposes behind the imposition of the statutory restrictions, said the commission, was to protect the ratepayer from paying rates based in part upon the need to earn a return upon a capital structure which might be out of line with the property actually dedicated to the public use. Yet, in the commission's judgment, approval of the proposed transaction would subject the ratepayer to exactly that risk, which the statute sought to eliminate. If the company should experience difficulty in making repayments under the mortgage, relief would be sought by way of increased rates. The ratepayer should not be compelled to bear the hazard of investment of company funds in a related, unregulated business.

Reserve Fund for Debt Service Requirements

The company had advised the commission that it intended to set up a reserve fund to service debt requirements by depositing with the paying agent government Treasury bonds in the requisite amount. The commission concluded that there was no authorization in the law for approval of such a proposal. There can be no justification for borrowing funds, said the commission, in order to invest them in government securities at a low rate of interest, while the company pays a higher rate of interest on the same funds. Ratepayers could not be asked to bear the debt service requirements of such a sum. Accordingly, the proposal was disapproved.

Working Capital

The commission was not satisfied as to the propriety of a security issue for the purpose of obtaining working capital. The record did not show that any of the proceeds of the proposed loan would be used for working capital in public utility operations. For this reason, the proposal was disapproved, the commission noting that there was no need to reach the question of whether, under certain circumstances, security issues might be approved for multiple purposes which included the purpose of working capital.

Amounts Approved

The loan was approved in the amount of $30,000. The commission was satisfied that the company would be able to meet, from its net operating income from utility operations, the debt service requirements applicable to that amount. The company was authorized to mortgage its utility properties in that amount only. *Re City Gas & E., Inc. Case No. 458, February 27, 1956.*

Abandonment of Municipal Heating Plant Ordered

CITING recent rate increases which had failed to assure consistent profits, the possible loss to customers of gas fuel, and the high cost of rehabilitation, a municipal heating plant expressed the opinion to the Wisconsin commission that abandonment might be justified.

The commission, before ordering abandonment, noted the alternatives open to the municipality. The system could be rehabilitated, with increased rates and an attempt made to enlarge business. This would prove futile at the present level of costs and the nature of the central heating business.

The utility could also raise its rates without rehabilitating the system. With many customers already indicating their intention to discontinue service, the commission noted, any series of rate increases would further reduce the number of customers.

The commission concluded that the most feasible plan would be to allow a reasonable time to discontinue service without increasing rates and in that way ease the cost to customers of installing separate heating systems. Customers who had contributed to the original cost of constructing the mains had had the use of the system for a sufficient length of time. It did not appear reasonable to invest money on rehabilitation in an attempt to make the heating system a profitable venture when it had been impossible to do so in the past. Delayed abandonment was ordered. *Re City of Hartford, 2-U-4494, December 22, 1955.*

Electric Company Ordered Out of Co-operative Territory

AN electric company was denied authority by the North Dakota commission to extend its lines a distance of about 2½ miles and serve two substantial customers in the territory of an electric co-operative. The co-operative showed that it was willing and able to furnish service to these users. This decision was made despite the fact that the company had already built the extension and begun service. The co-operative was in a position to furnish service by extending its lines only one-half the distance required by the company.

In a prior proceeding by the co-operative, the company had been ordered to cease and desist from serving these customers. The commission found that the facts in the instant case differed in no way from those of the prior proceeding. Therefore, besides denying a certificate authorizing the extension, the commission again ordered the company to cease and desist from further service to the two customers as of a specified date. *Re Otter Tail Power Co. Case No. 5337, March 8, 1956.*

Expert Testimony Ruled Ample Support For ICC Rate Determination

A UNITED STATES district court refused to set aside an Interstate Commerce Commission order granting an increase in intrastate freight rates for certain commodities hauled on railroads in South Carolina. The action was brought by the

state commission, which, relying upon testimony of interested shippers, contended that the increased rates would result in a diversion of traffic to motor carriers.

The question presented for the court's decision was whether there was substantial evidence before the commission to support its finding that the rate increase which it authorized would produce a substantial increase in revenue for the railroads. It is to be noted that under long-established law a court will not disturb a commission decision if it is supported by substantial evidence and is within the ambit of administrative power.

Expert Testimony Held Substantial

Traffic experts of the three great railway systems serving South Carolina testified unequivocally that, while some diversion of traffic might occur, the net result of the rate increase would be to substantially increase revenues. This testimony was supported by traffic studies which showed an increase in revenues resulting from an increase in interstate rates on the same kinds of commodities involved in the instant proceeding. A study showed the movement of such commodities in intrastate commerce over a specified period of time and how much the intrastate revenues would have been increased by the application of the percentage increases allowed in the interstate rates. The court concluded that expert testimony based upon these studies was ample support for the commission's determination. Whether experience with interstate rates is a dependable guide in judging the effect of a corresponding increase in intrastate rates, said the court, is a matter of expert judgment as to which the opinion of railroad traffic experts is substantial evidence. *South Carolina ex rel. Public Service Commission v. United States, 136 F Supp 897.*

Other Recent Rulings

Railroad Must Continue Bus Service. The New Jersey commission denied a railroad authority to discontinue bus service between certain points where no comparable service existed, there was a nominal continuing demand for the service, discontinuance would have subjected the remaining patrons to unreasonable inconvenience, and the out-of-pocket losses experienced in the operation were not disproportionate to the losses that might have been anticipated upon inauguration of the service. *Re Central R. Co. of New Jersey, Docket Nos. 8870, 8897, December 28, 1955.*

Industrial Rates Increased. The Wisconsin commission decreased a municipal electric plant's rates to general customers and increased rates of large power users in order to make them bear a more realistic share of the cost of service. *Re City of New London, 2-U-4474, December 20, 1955.*

Curtailment of Advertising Expense. The California commission refused to reduce a transit company's advertising expense allowance, commenting that transit operators should not be made to curtail business promotion activities in the face of declining traffic. *Re Fresno City Lines, Inc. Decision No. 52310, Application No. 37222, November 29, 1955.*

Overheads as Part of Cost. The Mis-

souri commission held that direct labor and material overheads should be considered a part of cost except where a company failed to capitalize general overheads and omissions and contingencies. *Missouri Pub. Service Commission v. Home Teleph. Co. Case No. 13193, November 4, 1955.*

Distance Not Sole Factor. The California commission refused to deviate from established common motor carrier point-to-point minimum rates, notwithstanding the applicant's assertion that if a certain rate was reasonable from a more distant point to the destination the same rate would be reasonable from a nearer point to the destination, commenting that rates are sensitive to several factors other than distance. *Re Valley Motor Lines, Inc. Decision No. 52323, Case No. 5432, December 5, 1955.*

Cement Rate on Experimental Basis. A motor common carrier's proposed cement rate was allowed by the Colorado commission on an experimental basis, notwithstanding that the existing rate had not been shown to be unreasonable, so that more precise data could be developed during the test period. *Re Eveready Freight Service, Inc. Case No. 1585, Decision No. 44994, December 2, 1955.*

Passenger Train Discontinuance. Discontinuance of certain passenger trains was ordered by the Colorado commission upon a showing that the cost of operation was out of all proportion to revenue received and that the public would not be seriously affected. *Re Union P. R. Co. Application No. 13219, Decision No. 45028, December 27, 1955.*

Temporary Suspension of Transit Operations. A transit company lacking ready cash and faced with constantly increasing indebtedness was authorized by the Colorado commission to suspend operations temporarily in order to fully explore the possibilities of refinancing and attempt to develop a new operating plan or, in the alternative, request revocation of its certificate at the end of the period. *Re Westminster Transit Co. Case No. 5113, Decision No. 45210, January 19, 1956.*

Carrier Rules Inapplicable. The Colorado commission ruled that its rules and regulations designed to protect shippers in their contractual relations with motor carriers do not apply to private motor carriers applying for a permit to perform freight pick-up and delivery service for a railroad, where the railroad assumes all responsibility for such service, makes all charges therefor, and fully controls the operation. *Re Brown, Application No. 14120-PP, Decision No. 45466, March 12, 1956.*

Evidence Inadmissible. Denying an appeal by a natural gas company from an examiner's ruling in a certificate proceeding, the Federal Power Commission held that evidence relating to speculative future supplies and deliverability beyond authorized amounts was properly excluded. *Re Northern Nat. Gas Co. Docket Nos. G-2399 et al. March 9, 1956.*

Accelerated Depreciation. The Ohio commission, upon application by a telephone company, reasserted its position taken in earlier cases with respect to accounting for the tax effects of accelerated depreciation, by requiring that the tax-reserve method be used to record the tax differential resulting from such depreciation, rather than the depreciation-reserve or restricted-surplus (capitalization) methods. *Re Ohio Consol. Teleph. Co. No. 26009, February 24, 1956.*

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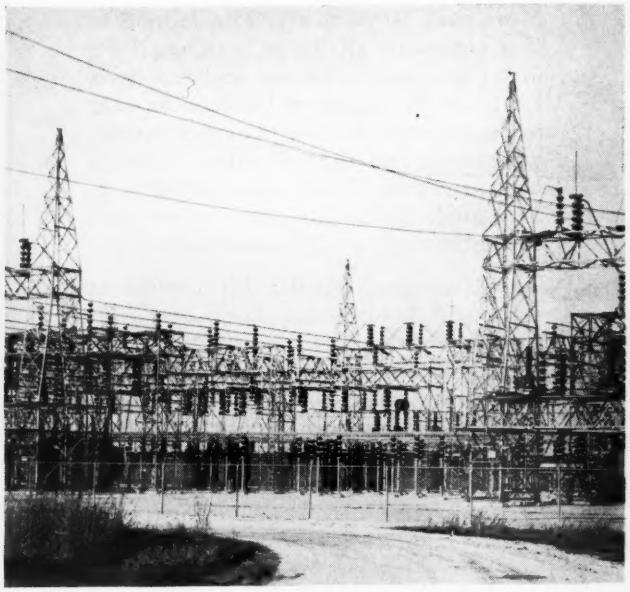

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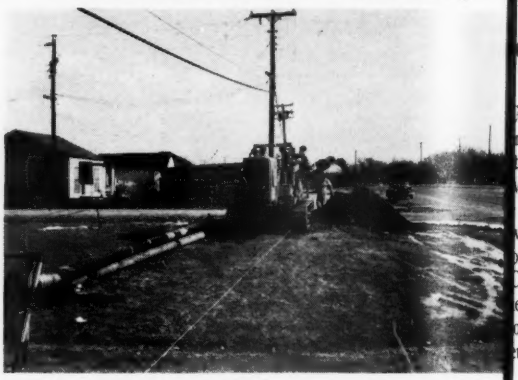
The Cleveland Model 140, shown at right and below on a Lone Star construction project, is digging 2,400 feet of trench for a 6-inch line and 2,000 feet for a 3-inch line in the vicinity of Second Avenue and Catalina, between Dallas and Rylie on U. S. Highway 175.

Cleveland 140 here is digging trench from which tunnel will be bored for a street crossing.



Full crawler mounting, low ground bearing pressure make Clevelands easy on lawns, walks, etc.

Complete operator visibility, easy working controls, help to cut trench exactly where it's wanted.

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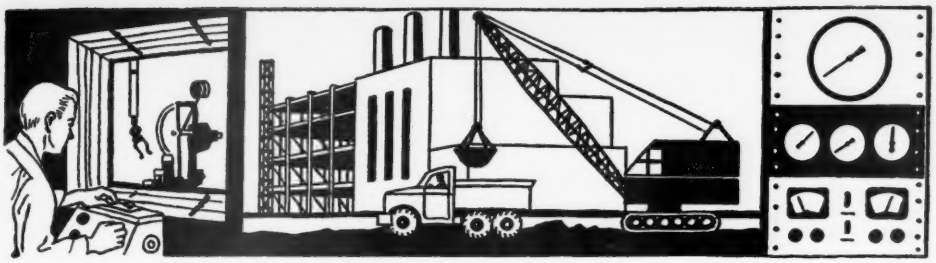


Industrial Progress

Gulf States Utilities to Build $34,000,000 Station

LF States Utilities Company ns to build a $34,000,000 power ion at Scott, Louisiana.

Vice-President H. C. Leonard said station, with 222,000 kilowatts er, will consist of two 11,000- watt generating units.

Completion of the first unit is eduled for the spring of 1958. The ond will be in operation a year r.

C Releases New Network Transformer Bulletin

ERATING features of Allis- almers oil and "Chlorextol" liquid- d and sealed dry-type transform- are discussed in a new 24-page letin released by the company.

The bulletin describes the electrical embly of the units, tap changer and k design, and the transformers' npact construction, mechanism and veniently located accessories. Pro- ure used in shipping the trans- mers is also covered.

Copies of "Allis-Chalmers Net- k Transformers," bulletin 61B- 2B, are available on request from is-Chalmers Manufacturing Com- y, 965 S. 70th street, Milwaukee, s.

Alabama Power Plans $25,000,000 Addition

OMAS W. MARTIN, chairman the board of directors of Alabama ver Company, announced recently t the board had approved imme- te application to Alabama Public vice Commission for a certificate convenience and necessity to con- ct a third large generating unit at ry steam plant just north of Mo- . This unit will cost in excess of ,000,000. It will have a capacity of something over 225,000 kilowatts and will nearly double the present capacity of the plant which is 250,000 kilowatts. Completion by June, 1959, is planned. To assure deliveries on dates needed and completion within schedule, tentative orders for major equipment are being placed.

The new generating unit will be housed in an extension to the eastern end of the plant. Barry Steam Plant is so located that ultimately it can have a capacity of a million kilowatts.

Pennsylvania P&L to Spend $157,000,000 in Five Years

PENNSYLVANIA Power & Light Company will spend $32,800,000 on new facilities in 1956 and $157,000,000 in the next five years, according to Chas. E. Oakes, president. Completion of the second generating unit at Martins Creek in mid-1956 is expected to add 160,000 kilowatts of capability.

Phila. Elec. Postwar Expenditures To Total $900 Million by '56

PHILADELPHIA Electric Company's postwar construction program to serve growing needs passed $500 million last year, and is expected to continue at an accelerated rate averaging more than $1½ million weekly, to aggregate nearly $900 million by 1960, according to R. G. Rincliffe, president.

A major item in the program is the new electric generating station at Eddystone, near Chester, which will be the most efficient so far designed. The first unit, with a capacity of 325,000 kilowatts, is scheduled to be placed in operation in 1959. A second unit of like capacity will be installed subsequently. Together, these two giants will produce enough power to supply the electrical needs of a million homes. A new generator is also being installed at the company's Schuylkill station in Philadelphia, which will add 175,000 kilowatts to the area's power supply in 1958.

Paul Sidler Cited for Service to ASME

PAUL R. SIDLER, president of Brown Boveri Corporation of New York, was awarded a special citation to commemorate his twelve years of service to the Gas Turbine Division of the American Society of Mechanical Engineers at the group's first national conference and exhibit held in Washington, D. C. recently.

Mr. Sidler, who was a member of the Gas Turbine Division's executive committee from 1949 to 1954 and its chairman in 1953, received the special citation which read in part:

"The Gas Turbine Power Division of the American Society of Mechanical Engineers honors Paul R. Sidler for his outstanding contributions as a founding member of the Gas Turbine Coördinating Committee (1944) and an able chairman of the Division, as shown on this certificate. . . .

"Beyond this personal recognition, Paul's associates in the Division like to recall his part in introducing the first Brown Boveri gas turbine to the United States some twenty years ago, his services as the Division's first and principal contact for foreign developments, his many papers that made this new prime mover known among engineers, and his constant devotion to the interests of the Division."

Brown Boveri's exhibit at this first annual Gas Turbine Conference featured scale models of the two Brown Boveri 25,000 kw gas turbines installed in the largest Gas Turbine Power Station in the world at Livorno, Italy, and a 6,200 kw gas turbine mobile power plant, three of which were purchased by the Federal

(*Continued on page* 26)

Electricidad Commission of the Mexican Government.

Chair in Electric Power Systems Established At IIT

FIVE leading companies associated with the electric power industry have united to establish a professorial chair in electric power systems engineering at Illinois Institute of Technology, Chicago, it has been announced by Dr. John T. Rettaliata, president of the Institute.

The five sponsoring companies are Allis-Chalmers Manufacturing Company, American Gas and Electric Company, Commonwealth Edison Company, Illinois Power Company, and the Westinghouse Electric Corporation.

In making the announcement, Dr. Rettaliata stated:

"It is the earnest belief of the sponsoring companies and Illinois Institute of Technology that if rapidly expanding demands of the nation for electricity are properly to be met in the future it will be necessary to bring more bright and capable students into the electric power field.

"We need to do more to awaken students to the dynamic character of the electric power industry and to its challenges and opportunities.

"This can best be done in our engineering schools by teachers who understand and believe in the important role that engineers entering this field can play in its development; who believe the field affords unique opportunities for capable students; and who can stimulate and inspire such students."

Dr. William Abbett Lewis, Jr., formerly dean of the graduate school at Illinois Tech, has accepted appointment to the chair, which will be made an integral part of the program of the Institute's department of electrical engineering.

Dr. Lewis became associated with the Institute in 1944 as a research professor of electrical engineering and since 1946 has been its graduate division dean.

Educated at the California Institute of Technology, which awarded him its doctorate degree in 1929, he was a central station engineer for Westinghouse Electric Corporati until 1929 when he was appointed d rector of the department of electric engineering at Cornell University.

Wisconsin Public Service to Spend $7,882,000 This Year

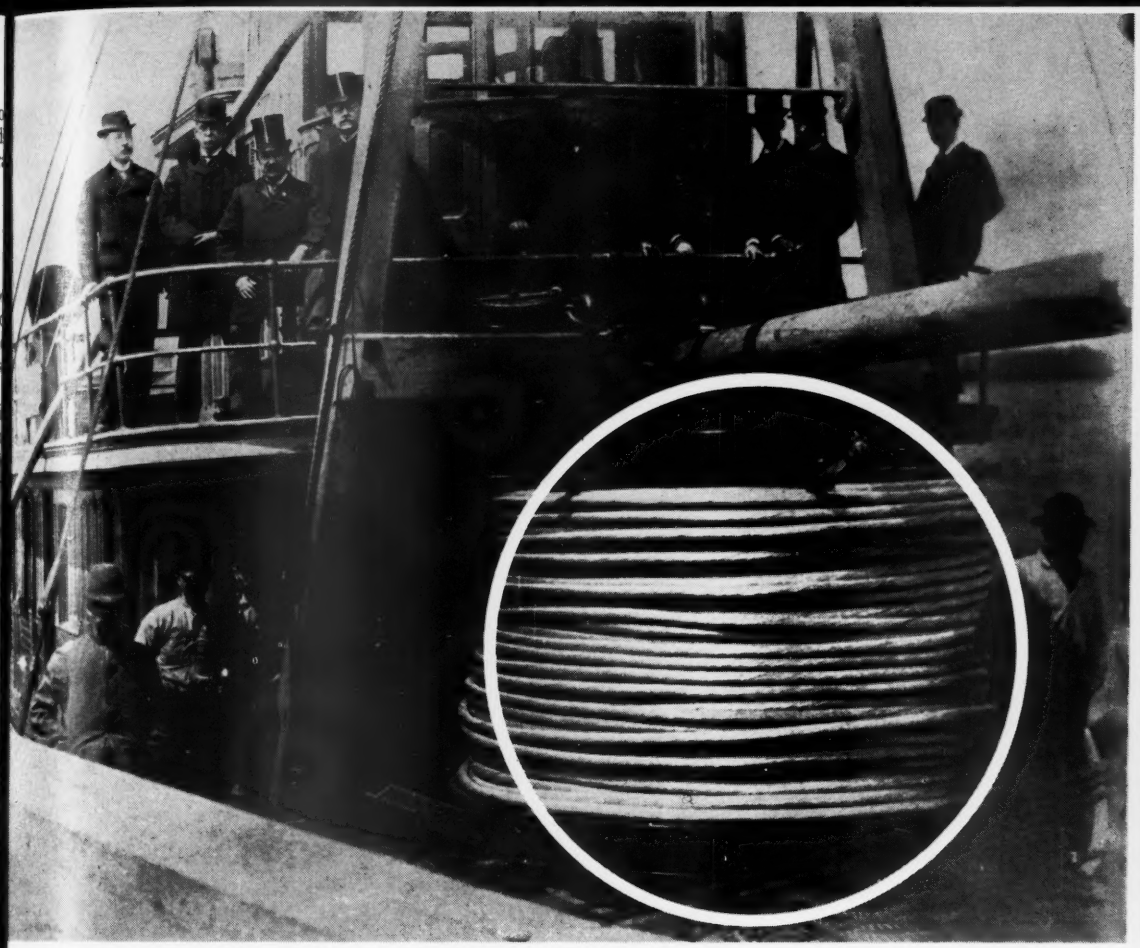
WISCONSIN Public Service Co poration will spend $7,882,000 f expansion in the next 12 months, a cording to Harold P. Taylor, pres dent.

Power plant expenditures w amount to $1,009,000, consistin mainly of a new cooling water intak tunnel at the Pulliam steam electr plant in Green Bay, as well as the sta of construction of generating un number seven at the giant plant. Th 75,000 kilowatt unit ultimately w cost $12,000,000 to be spread over t next three years.

About $430,000 will be spent i proving the electric transmission sy tem. New substations and additio to existing ones will total $830,000.

The largest share of the total e penditure—$3,200,000—will be spe

(*Continued on page* 28)



1880 *preferred then . . . and now*

THIS reproduction was made from an old photograph dated 1880, found in the Kerite archives at Seymour, Conn. It was taken as the steam tug "Western Union" completed the laying of an 18-conductor Kerite insulated submarine telegraph cable from New York, under the Hudson River, to Jersey City. It indicated that Kerite insulated cable was contributing to the furtherance of submarine telegraph circuits long before the turn of a century.

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in expanding and improving the distribution system. Every city served by Public Service is involved in this program because of the steadily growing demand for electricity.

Improvements to the gas transmission and distribution system will cost $1,640,000. This expenditure will consist mainly of new gas main extensions, the enlargement of existing mains, and new customer service installations necessary to meet the steadily growing demand for gas.

New service, warehouse and garage buildings in Oconto and Menominee are scheduled for 1956. Vehicle and equipment replacement will cost $350,000 due principally to the need for replacing trucks and equipment purchased at the close of World War II.

San Diego Gas & Elec. Celebrates 75th Anniversary

ON April 18th, the San Diego Gas & Electric Company celebrated its 75th anniversary. It was on this date in 1881 that a group of civic-minded San Diegans organized what was then known as the San Diego Gas Company and with $30,000 built a gas manufacturing plant capable of supplying 25,000 cubic feet of manufactured gas per day to the community. The company's business increased rapidly and in December, 1886, the directors decided to enlarge the gas plant. The resulting 400,000 cubic feet per day plant capacity proved more than adequate until the turn of the century.

Six years after its founding the company was reorganized and renamed the San Diego Gas & Electric Light Company. In 1887 the Coronado Gas & Electric Company was purchased, which organization had previously acquired the Jenney Electric Company, owner of the first San Diego electric generating plant which started operation in 1886. With generating equipment, which consisted of four 30-light direct current arc-light generators driven by two 75-horsepower steam engines, the utility was now, in addition to gas service, supplying current for twenty-four arc lights on a "dusk to midnight basis—other than on moonlight nights." Shortly thereafter electric service was extended to stores and offices. In 1888 the company built its station A plant and expanded its service to 173 lights with a capability of supplying 300.

The San Diego Gas & Electric Light Company bought the incandescent lighting properties of the defunct Electric Rapid Transit System in 1892 and incorporated the equipment into its station A plant. The first meter rate was introduced in 1894 and amounted to 2 cents a lamp per hour. As the lamp required about fifty watts, the rate was equivalent to 40 cents per kilowatthour. Since today's average residential rate is 2.35 cents per kilowatthour, the cost of lighting a 50-watt lamp in 1894 was 17 times greater than it is at present. Twenty-four hour service was started in San Diego in 1902 to approximately 1,000 electric customers.

In 1905, the need for funds to nance a greatly needed expansion facilities resulted in a change of ownership to the H. M. Byllesby Company of Chicago, and a change name to the San Diego Consolida Gas & Electric Company. The f lowing fifty years have witnesse tremendous enlargement of serv territory and plant facilities.

In 1940, under another reorgani tion program, management of the u ity returned to local contr l and organization was renamed San Di Gas & Electric Company. The follo ing fifteen years, during and si World War II, have been the per of the company's greatest expansi

In the years between 188 throu 1955, the utility's investment in pla property, and equipment has creased from $30,000 to approxima ly $187,000,000. Number of custo ers has increased from 89 gas s scribers in 1881 to more than 2 000 electric and almost 200,000 customers today.

Authoritative forecasts predict continued growth of the San Di area. Keeping pace with it, the S Diego Gas & Electric Company ready has under construction at Encina plant in Carlsbad an addi which will house another 106, kilowatt turbo-generator to be into operation in August 1956. another 106,000 kilowatter is on der and is scheduled to be in op tion in 1958. Looking toward more distant future, the company taken steps to acquire 144 acres land fronting on the south end San Diego Bay, which will be the of its fourth generating station.

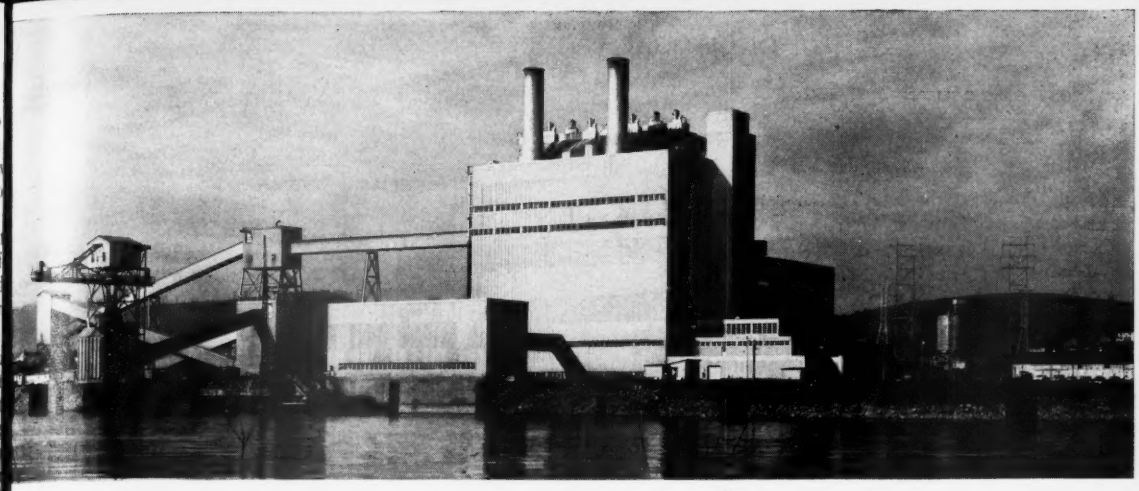
In order to keep pace with the creasing requirements for gas, a tional supplies of natural gas will sought, while pipelines, compress and other facilities will be constr ed to meet the demand.

Sy-Co Elects New Officers

SY-CO Corporation of Lyndhu N. J., engineers and contractors conveyor systems, announces the e tion of G. Randolph Syversen president. Mr. Syversen was merly secretary and treasurer of Corporation, as well as being charge of their New Business partment.

Mr. Gustav A. Syversen, form president, has been elected chair of the Board.

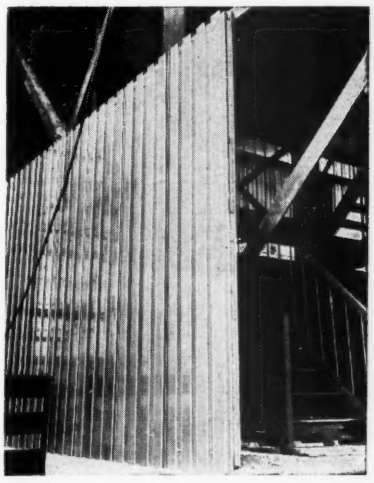
(*Continued on page* 30)



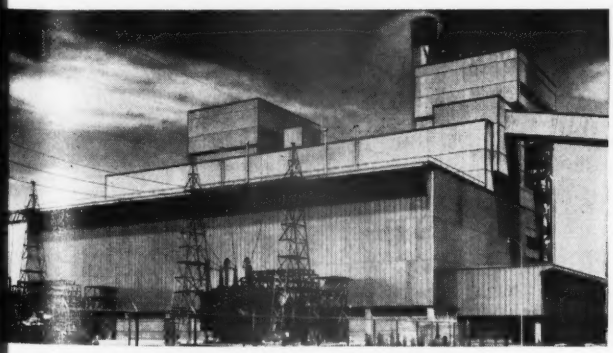
Q-Panel walls grace the new Elrama Power Plant (above) near Pittsburgh. It was designed by Duquesne Light Company's Engineering and Construction Department. The Dravo Corporation was General Contractor.

Why fine new power plants everywhere have Q-Panel Walls

Builders of new power plants in all parts of the country have specified Q-Panel walls for the following very good reasons: 1. Q-Panels are permanent, dry and noncombustible, yet may be demounted and re-erected elsewhere to keep pace with expansion programs. 2. Q-Panels are light in weight, thus reducing the cost of framing and foundations. 3. Q-Panels have high insulation value . . . superior to a 12″ masonry wall. 4. Q-Panels are quickly installed because they are hung, not piled up. An acre of wall has been hung in 3 days. For more good reasons for using Q-Panel construction, use the coupon below and write for literature.



Q-Panel walls (above) go up quickly in any weather because they are dry and hung in place, not piled up.



More than 32,000 sq. ft. of Q-Panels were used to enclose the impressive Hawthorn Steam Electric Station (left) of the Kansas City, Missouri, Power and Light Company. Ebasco Services, Inc., designed and built the plant.

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A NEW unit, designed and recommended for continuous indentation marking of codes, inspection data and other identifications on bare rectangular or bare round wire has been announced by Jas. H. Matthews & Company.

Free-rolling, and motivated by friction drive, the Matthews No. 245 is mounted at the discharge end of a wire straightening machine or other suitable location where the wire is moving during the manufacturing process. The mounting base of the unit is designed to be easily adapted to fit nearly any installation.

This wire marker will accommodate rectangular wire up to $\frac{5}{8}$ inch wide by $\frac{1}{4}$ inch, and round wire up to $\frac{1}{4}$" diameter. It is equipped with two self-centering, adjustable guide rolls, a back-up roll and a 4" diameter marking roll to produce an impression approximately every 12". Controlled depth impressions of from .002" to .003" deep are guaranteed with characters of 1/32" or 1/16" size.

For more complete information and literature, contact Jas. H. Matthews & Co., 3864 Forbest street, Pittsburgh 13, Pa.

$130,000,000 Program Planned By Peoples Gas System

EXPANSION plans for the Peoples Gas system will require a total of $130,000,000 in new financing in the next two years, Chairman James F. Oates, Jr., told stockholders of The Peoples Gas Light and Coke Company at the company's annual meeting recently.

Included in the total are: the previously announced $80,000,000 enlargement of long distance pipeline capacity to bring Rocky Mountain natural gas to Chicago; the $35,000,000 extension of a line into Jack and Wise counties of Texas from the present system; a third, $13,000,000 Calumet line for the Chicago District Pipeline Company; and a $4,000,000 line by Peoples Gas in Chicago.

AG&E Plans to Builds Two Huge Generators

AMERICAN Gas & Electric Company plans to build two 450,000-kilowatt electric generators at a cost $55,000,000 apiece that will be "73 p cent larger than any single pow units operating anywhere in the wo today," according to Philip Spo president.

Mr. Sporn said the plants will e develop "the equivalent of more th 600,000 horsepower, be capable supplying all the residenti electr requirements of a city with a popul tion of four million and consume 300,000 tons of coal a year."

The exact location of the new ge erators will not be determined f several months, Mr. Sporn said, b they will be installed on the electr power systems of two of the com pany's three biggest operating su sidiaries: Appalachian Electric Pow Company, Ohio Power Company Indiana & Michigan Electric Com pany.

The two 450,000-kw generato would hike the system's total capaci some 6,600,000 kw.

General Electric will build the n unit's turbine-generators, while Ba cock & Wilcox Company will co struct the boilers, each one as tall a 23-story building.

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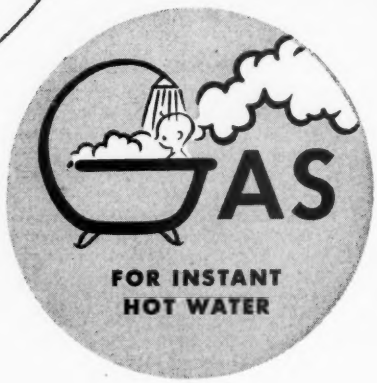

CHARLESTON GROUP: United Fuel Gas Company, Atlantic Seaboard Corporation, Amere Gas Utilities Company, Virginia Gas Distribution Corporation, Big Marsh Oil Company, Central Kentucky Natural Gas Company; **COLUMBUS GROUP:** The Ohio Fuel Gas Company; **PITTSBURGH GROUP:** The Manufacturers Light and Heat Company, Binghamton Gas Works, Cumberland and Allegheny Gas Company, Home Gas Company, The Keystone Gas Company, Inc., Natural Gas Company of West Virginia; **OIL GROUP:** The Preston Oil Company.

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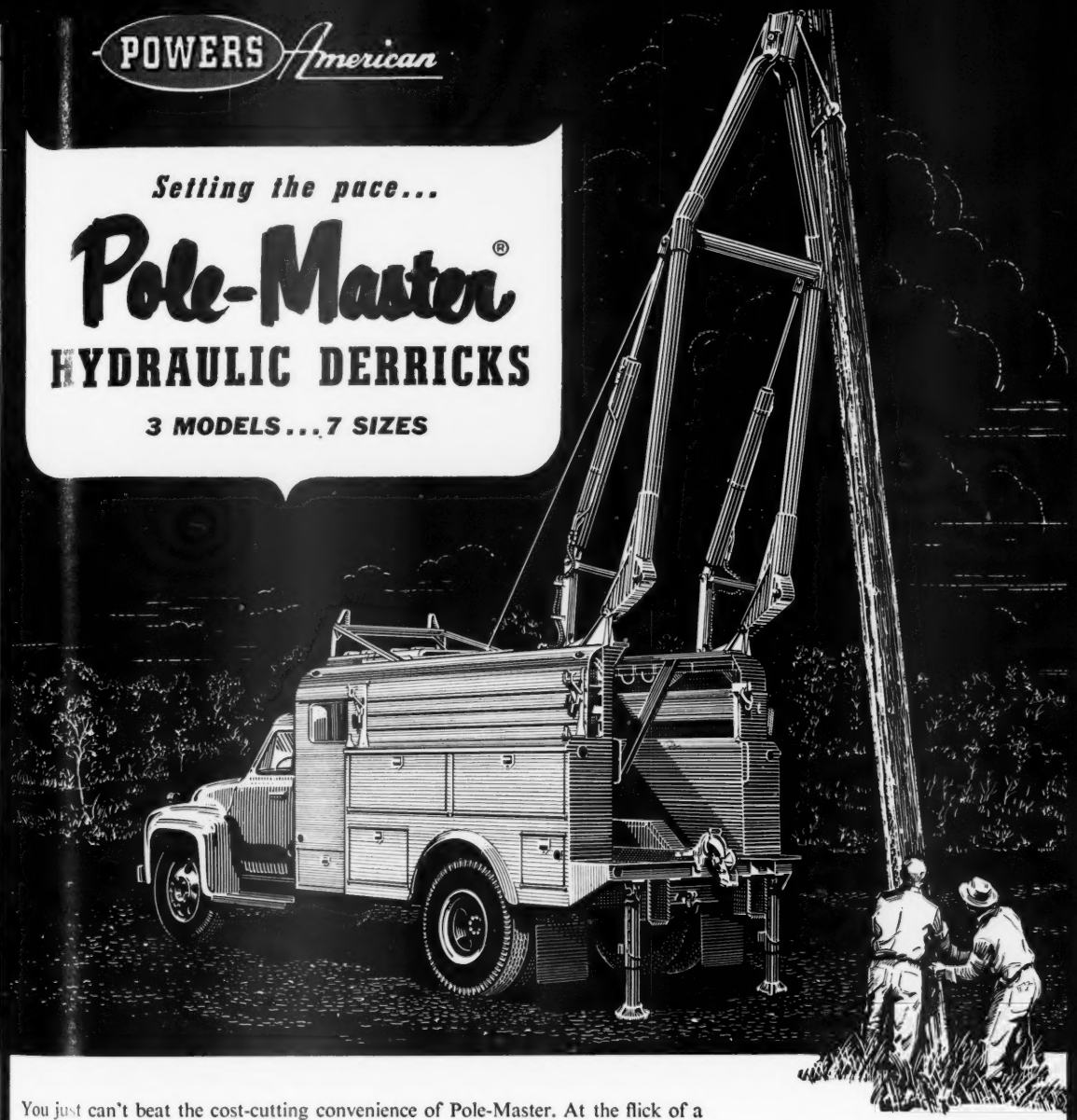

You just can't beat the cost-cutting convenience of Pole-Master. At the flick of a lever, powerful hydraulic cylinders move the derrick to the position that's *exactly* right for the hoisting job. There's no exposed mechanism. Head sheave can be threaded from the ground.

When it comes to capacity, Pole-Master equals or surpasses conventional derricks of comparable rating. It stows *above* the body . . . never obstructs valuable cargo area space.

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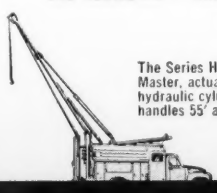
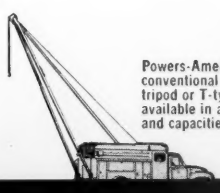
Series HD-2 Pole-Master Derricks can be furnished in sizes for handling 40′ and 55′ poles.



The Series HD-4 Pole-Master, actuated by four hydraulic cylinders, handles 55′ and 70′ poles.



Powers-American conventional derricks, tripod or T-type, are available in all sizes and capacities.

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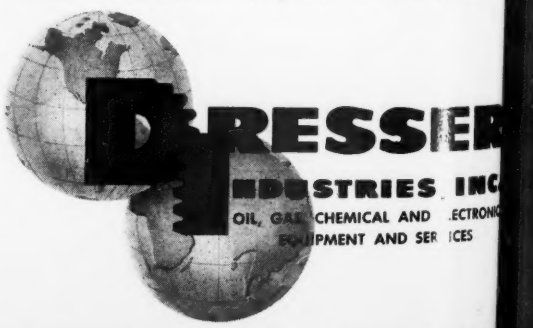

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